



BASIC BUSINESS 20

MODULES 1-3
LEARNING
FACILITATOR'S
MANUAL



**Distance
Learning**

Alberta
EDUCATION

Basic Business 20

Modules 1 – 3

LEARNING FACILITATOR'S MANUAL



Note

This Basic Business 20 Learning Facilitator's Manual contains answers to teacher-assessed assignments and the final test; therefore, it should be kept secure by the teacher. Students should not have access to these assignments or the final tests until they are assigned in a supervised situation. The answers should be stored securely by the teacher at all times.

Basic Business 20
Learning Facilitator's Manual
Alberta Distance Learning Centre
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Introduction

A survey of these course materials will confirm that this new learning package has been specially designed for many kinds of teachers working in a variety of situations.

Which Category Do You Fit?

☐ Small Schools Teacher

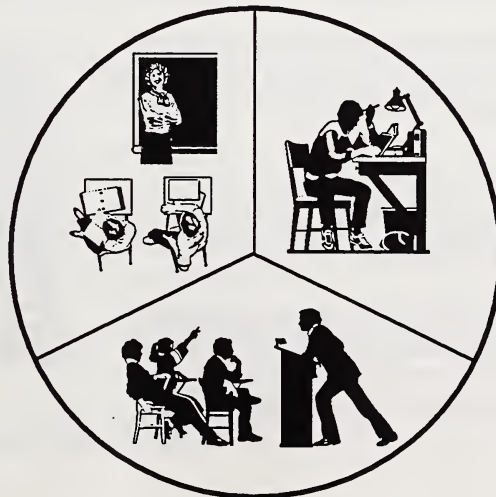
- ☐ inexperienced
- ☐ experienced, but in other subject areas
- ☐ experienced in teaching basic business but wanting to try a different approach

☐ Distance Learning Teacher

- ☐ travelling to schools within the jurisdiction
- ☐ using facsimile and teleconferencing to teach students within the area

☐ Larger Schools Teacher

- ☐ inexperienced
- ☐ experienced in teaching basic business but wanting to try a different approach



Because these materials have been created by experienced classroom teachers and distance learning specialists, they have many advantages for students and teachers regardless of their situation.

Advantages for Students

- incorporates a strong learner-centred philosophy
- promotes such qualities in the learner as autonomy, independence, and flexibility
- is developed through media which suit the needs and circumstances of the learner
- reflects the experiential background of Alberta students
- opens up opportunities by overcoming barriers that result from geographical location
- promotes individualized learning, allowing learners to work at their own pace

Advantages for Teachers

- allows teachers maximum teaching time and minimizes preparation time
- includes different routes through the materials to suit different learners
- incorporates a wide range of teaching strategies, in particular those using independent and individual learning
- delivers curriculum designed by education specialists that reflects the Alberta Education Program of Studies with an emphasis on Canadian content
- provides learning materials which are upwardly compatible with advanced educational technology

Does it sound like something you could use?

The student materials are not the only components designed for independent, guided instruction; so is this Learning Facilitator's Manual. It begins with an overview of the current Alberta Education Program of Studies for Basic Business. This summary is included for inexperienced teachers or those teachers who have found themselves teaching basic business when their training is in other subject areas. This brief summary is not meant to replace the Alberta Education Program of Studies, but rather to help teachers confirm the highlights of the program.

Other parts of this introduction have also been included to help teachers become familiar with this new courseware and determine how they might want to use it in their classrooms.

Beyond the introduction the guide itself contains answers, models, explanations, and other tips generated by the teachers who authored this course.

The courseware and LFM are the products of experienced classroom teachers and distance learning specialists. It is the hope of these teachers that their experience can be shared with those who want to take advantage of it.



Overview of the Program of Studies

Program Philosophy

Business Education is an interdisciplinary study of the principles, procedures, and technologies within the business environment and thus plays a significant role in meeting the Goals of Schooling and Goals of Education in Alberta Schools. Within this program a student has the opportunity to learn more about the role of a future participant within a productive society and to build a framework for a successful career. The knowledge, skills, attitudes, and habits expected in business assist students, upon completion of high school, to respond to the opportunities and expectations of the world of work.

The development of individuals' potentials in the areas of psychomotor, affective, and cognitive domains is central to learning and instruction. Individuals discover themselves and realize their potential by interacting with ideas, technology, and people. The world of business is an appropriate focus for this interaction.

Program Objectives

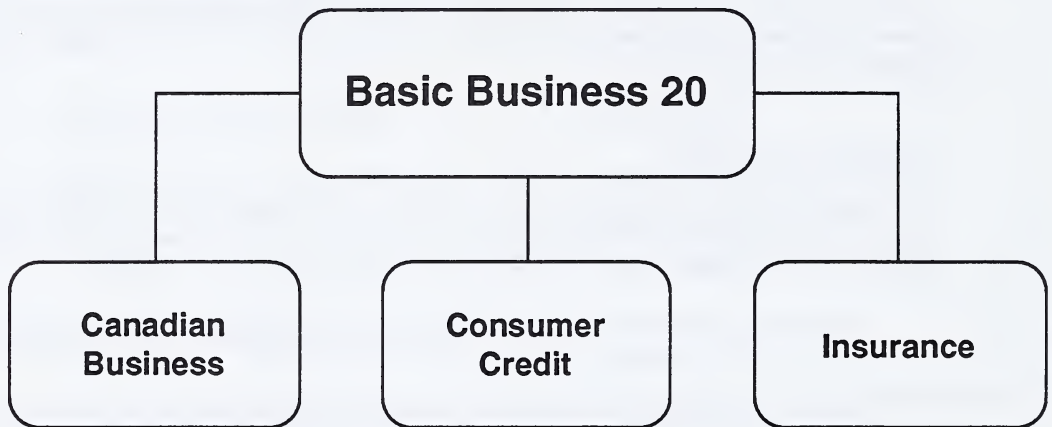
The business education curriculum provides education about business for all students in order that they become informed citizens, and education for business for some students in order that they become effective workers. More specifically, the purpose of the program is to do

- provide an opportunity for students to select and pursue individual interests and specialize in the study of the business environment
- prepare for job entry upon completion of high school and for future advancement in business
- provide background skills and knowledge for specialization in business and/or admission to post-secondary programs
- provide for a general understanding of business and the development of skills for personal use
- develop the thinking strategies and problem-solving abilities of students
- develop acceptable communication and interpersonal skills
- provide an opportunity for students to relate and apply learning in business education to other areas of study
- expose students to the business environment for the purpose of acquiring information, gaining experience, and testing ideas and hypotheses
- provide a meaningful study of the business environment including the ideas, people, and technology of business
- provide for the development and acquisition of business knowledge and skills which will be most useful and durable in a rapidly changing society

Overview of Basic Business 20

The basic business program provides an opportunity for all students to develop sound personal skills in financial planning, decision making, and goal setting. Students will become aware of the factors which influence management decisions and will apply the skills gained to situations appropriate to personal career planning. At the introductory level (Basic Business 20) students will learn the following concepts:

- Canadian Business
- Consumer Credit
- Insurance



Basic Business 20 Objectives

The student in Basic Business 20 will

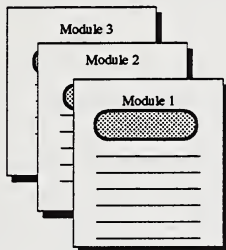
- develop a basic knowledge and understanding of the structure and principles that control business
- develop an understanding of the fundamental principles that affect consumer choice
- examine the influence government has on consumers and business
- investigate and evaluate the source of consumer credit
- investigate and analyse various types of insurance

Structure of the Learning Package

Basic Design

This new learning package involves many other components in addition to the Learning Facilitator's Manual.

Modules



The print components involve many booklets called modules. These modules contain guided activities that instruct students in a relevant, realistic setting.

The modules have been specially designed to promote such qualities in the learner as autonomy, independence, and flexibility. Writers have incorporated such teaching strategies as working from the concrete to the abstract, linking the old to the new, getting students actively involved, and using advance, intermediate, and post organizers. Many other techniques enable learners to learn on their own for at least some of the time.

The structure of the module booklets follows a systematic design. Each module begins with a detailed table of contents which shows the students all the main steps. It acts as an organizer for students. The overview introduces the module topic or theme. A graphic representation has been included to help visual learners and poor readers. The introduction also states the weightings of each assignment.

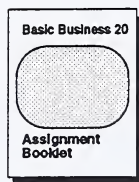
The body of the module is made up of two or more closely related sections. Each section contains student activities that develop skills and knowledge centred around a theme.

The activities may involve print, audio, and video formats. At times the student and the learning facilitator are allowed to choose the activity that best suits the student's needs and interests. Other activities such as Extra Help and Enrichment are optional pathways. This flexibility caters to each student's personal situation.

The summary focuses on the skills and strategies that the student has learned.

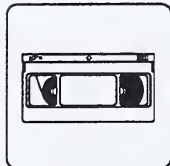
Contents
Overview Evaluation
Section 1 Activity 1 Activity 2 etc.
Section 2 Activity 1 Activity 2 etc.
Section 3 Activity 1 Activity 2 etc.
Section 4 Activity 1 Activity 2 etc.
Module Summary

Assignment Booklet



Accompanying each module is an assignment booklet. The activities in these booklets can be used for formative and for summative assessments. The students should complete these assignment booklets when they have thoroughly reviewed the module materials. The assignment booklets have been designed for classroom use, for faxing, or for mailing. **If the booklets are not being mailed, you should remove the outside cover.**

Media



VIDEOCASSETTE

The package also includes reference to media. Pathways have been developed so students can use a variety of media to achieve the objective. These different routes have been included to suit different learners. Wherever videos have been included, a print pathway is also available. This way, if the media resource isn't available or desired, a student can follow the print pathway and still successfully achieve the objective.



COURSE
AUDIOCASSETTE
(providing general
teacher guidance)

A special audiocassette features a teacher guiding the student through the course. The appearance of the teacher icon reminds students that additional help is available.

Textbook



The textbook used in the Basic Business 20 course is *The World of Business: A Canadian Profile, Second Edition*. It is important that the students have the appropriate edition.

Materials, Media, and Equipment

Mandatory Components

Equipment (Hardware)	Media	Materials
<ul style="list-style-type: none">• audiocassette player	<ul style="list-style-type: none">• prepared audiocassettes (come with learning package)	<ul style="list-style-type: none">• LFM for Basic Business 20• one complete set of module booklets (3) and assignment booklets (3) for each student• There is a final test.

Optional Components

Equipment (Hardware)	Media	Materials
<ul style="list-style-type: none">• VCR	<ul style="list-style-type: none">• videocassettes <p>Videocassettes used in the course may be available from your regional library service. If not, contact the Learning Resources Distributing Centre or ACCESS Network for more information.</p>	

Using This Learning Package in the Classroom

Conventional Classroom

Whether your classroom has desks in rows or tables in small groups, you may be most comfortable with a learning system that you can use with all your students in a paced style. In other words, you may want a package that will suit all of your students, so they can move through the materials as one group or several small groups. Because these materials contain different routes or pathways within each unit, they can address various learning styles and preferences. The materials also include many choices within the activities to cater to different thinking and ability levels. Because of their versatility and flexibility, these materials can easily suit a conventional classroom.

Open-Learning Classroom

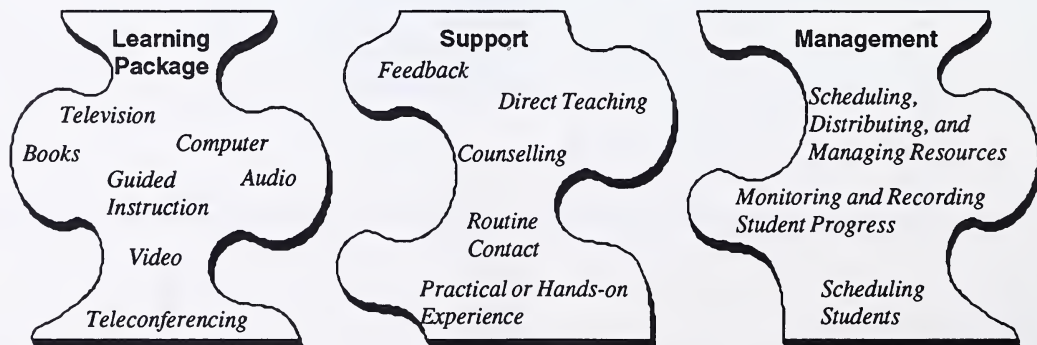
Open-learning is the concept of opening up opportunities by overcoming barriers of time, pace, and place by giving the learners a package specially designed to enable them to learn on their own for at least some of the time.

Such a concept is not new. Many teachers can recite attempts to establish an individualized learning system as they recognized the importance of trying to personalize courseware to meet each individual student's needs. But these efforts often failed, due to a lack of time and quality materials that conformed to Alberta specifications.

Due to advanced educational technology and improved Alberta-specific learning packages, a student-centred approach is now possible. Improved technology now allows us to provide support to learners individually, regardless of their pace or location. A teacher cannot be in twenty-eight places at one time offering guidance. However, media and a well-designed learning package can satisfy individual needs. Technology can also help provide an effective management system needed to track the students as they progress independently through the materials.

The key to a successful open-learning system depends on three vital elements: a learning package specially designed to enable students to learn effectively on their own for at least some of the time; various kinds of learner support; and a management system and style that ensures that the open-learning system runs smoothly.

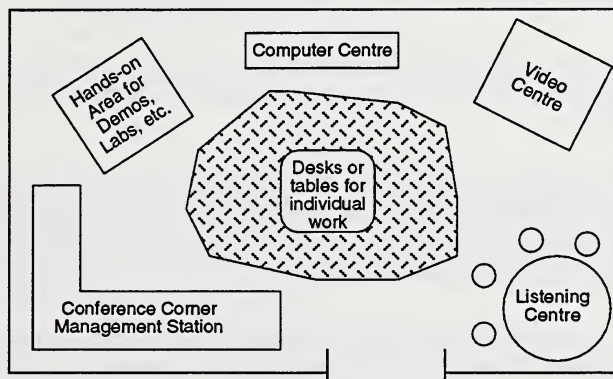
The Key to a Successful Open-Learning System



Learning Package

The specially designed learning package needed for a successful open-learning system has been developed for you. The objectives teach current Alberta specifications using strategies designed for individualized instruction. As the learning facilitator, you need to be sure to have all the components in the learning package available to students as needed.

If adequate numbers of media are available to satisfy the demand, a centre can be established for specific media.



You may not have the luxury of having enough hardware to set up a permanent video or computer centre in your classroom. In that case, students should be encouraged to plan ahead. Perhaps every three to five days they should preview their materials and project when they would need a certain piece of media. This would allow you to group students, if necessary, or reserve media as required.

Support

Support is definitely a key element for successful learning, and when you're planning an individualized, non-paced program, you need to carefully plan when and how support will be given.

The materials contain a form of consistent support by providing immediate feedback for activities included in the module booklet. High school students have solutions, models, explanations, and guides included in the appendix of every module booklet. These are included so students can receive immediate feedback to clarify and reinforce their basic understanding before they move on to higher levels of thinking.

As the learning facilitator, you may be needed to offer more personal guidance to those students having difficulty, or you may need to reinforce the need for students to do these activities carefully before attempting the assignments in the assignment booklet.

The activities include choices and pathways. If a student is having difficulty, you may need to encourage that student to work on all the choices rather than one. This would provide additional instruction and practice in a variety of ways.

Another form of support is routine contact with each individual. This might be achieved with a biweekly conference scheduled by you, or as students reach a certain point (e.g., after each section is completed), they may be directed to come to the conference area.

Special counselling may be needed to help students through difficult stages. Praise and encouragement are important motivators, particularly for those students who are not used to working independently.

Direct teaching may be needed and scheduled at certain points in the program. This might involve small groups or a large group. It might be used to take advantage of something timely (for example, an election or an eclipse) or something prescheduled like the demonstration of a process, or something involving students in a hands-on, practical experience.

Support at a distance might include tutoring by phone, teleconferencing, faxing, or planned visits. These contacts are the lifeline between learners and distance education teachers, so a warm dialogue is essential.

Management

Good management of an open-learning system is essential to the success of the program. The following areas need action to ensure that the system runs smoothly:

- **Scheduling, Distributing, and Managing Resources** – As discussed earlier, this may require a need for centres or a system for students to project and reserve the necessary resources.
- **Scheduling Students** – Students and teachers should work together to establish goals, course completion timelines, and daily timelines. Although students may push to continue for long periods of time (e.g., all morning), teachers should discourage this. Concentration, retention, and motivation are improved by taking scheduled breaks.
- **Monitoring Student Progress** – You will need to record when modules are completed by each student. Your data might also include the projected date of completion if you are using a student-contract approach.



Sample of a Student Progress Chart

Basic Business 20		Module 1	Module 2	Module 3	Final Test
<i>Billy Adams</i>	P				
	A				
<i>Louise Despins</i>	P				
	A				
<i>Violet Klassian</i>	P				
	A				
P = Projected Completion Date A = Actual Completion Date					

The student could keep a personal log as well. Such tracking of data could be stored easily on a computer.

- Recording Student Assessments – You will need to record the marks awarded to each student for work completed in each module assignment booklet. The marks from these assignment booklets will contribute to a portion of the student's final mark. Other criteria may also be added (a special project, effort, attitude, etc.). Whatever the criteria, they should be made clear to all students at the beginning of the course.

Sample of a Student Assessment Chart

Basic Business 20	Module 1	Module 2	Module 3	Year's Average	Final Test	Final Mark
<i>Billy Adams</i>	67	65	54	63		
<i>Louise Despins</i>	43	50	54	49		
<i>Violet Klassian</i>	65	65	66	65		

Letter grading could easily be substituted.

- Recording Effectiveness of the System – Keep ongoing records of how the system is working. This will help you in future planning.

Sample of a System Assessment Chart

Module 1			
Date	Module Booklet	Assignment Booklet	Resources/Media

The Role of the Teacher in an Open-Learning Classroom

The teachers in a conventional classroom spend a lot of time talking to large groups of learners. The situation in open learning requires a different emphasis. Teachers will probably meet learners individually or in very small groups.

With this approach it is necessary to move beyond the idea of a passive learner depending largely on a continually supportive teacher. The teacher must aim to build the student's confidence, to stimulate the learner into self-reliance, and to guide the learner to take advantage of routes that are most meaningful and applicable to the learner.

These materials are student-centred, not teacher-centred. The teacher needs to facilitate learning by providing general support to the learner.

Evaluation

Evaluation is important to the development of every learner. Data gathering, processing, and decision making, at the student and teacher level, serve as means of identifying strengths and weaknesses.

These specially designed learning packages contain many kinds of informal and formal evaluation.

Observation

In the classroom the teacher has the opportunity to see each student perform every day and to become aware of the level and nature of each student's performance.

Observations are more useful if they are recorded in an organized system. The following list of questions is a sample of the types of observations and how they can be collected.

Observation Checklist

1. Does the student approach the work in a positive manner?
2. Is the student struggling with the reading level?
3. Does the student make good use of time?
4. Does the student apply an appropriate study method?
5. Can the student use references effectively, etc.?

B. Adams	L. Despina	V. Klassian	H. Smith	K. Dalley

Observation may suggest a need for an individual interview with a student.

Individual Conferences

Individual conferences may be paced (scheduled) by the calendar or at certain points in the module, or they may be set up only as needed or requested.

During these conferences teachers can determine the student's progress and can assess the student's attitudes toward the subject, the program, school, and self, as well as the student's relationship with other students. With guided questions the teacher can encourage oral self-assessment; the student can discuss personal strengths or weaknesses in regard to the particular section, module, or subject area.

Self-Appraisal

Self-appraisal helps students recognize their own strengths and weaknesses. Through activities that require self-assessment, students also gain immediate feedback and clarification at early stages in the learning process. Teachers need to promote a responsible attitude toward these self-assessment activities. Becoming effective self-assessors is a crucial part of becoming autonomous learners. By instructing, motivating, providing positive reinforcement, and systematically supervising, the learning facilitator will help students develop a positive attitude toward their own progress.

For variation, students may be paired, and peer assessing may become part of the system. The teacher may decide to have the student self-assess some of the activities, have a peer assess other activities, and become directly involved in assessing the remainder of the activities.

When the activities have been assessed, the student should be directed to make corrections. This should be made clear to students right from the start. It is important to note the correct association between the question and the response to clarify understanding, aid retention, and be of use for study purposes.

Many of the activities include choices for students. If the student is having difficulty, more practice may be warranted, and the student may need to be encouraged to do more of the choices.

Each section within a module includes additional types of activities called Extra Help and Enrichment. Students are expected to be involved in the decision as to which pathway best suits their needs. They may decide to do both.

Self-appraisal techniques can also be introduced at the individual conferences. Such questions as the following might be included:

- What steps are you taking to improve your understanding of this topic?
- What method of study do you use most?
- How do you organize your material to remember it?
- What steps do you follow when doing an assignment in your assignment booklet?
- What could you do to become an even better reader?
- Do you have trouble following directions?
- Did you enjoy this module?

A chart or checklist could be used for recording responses.

Informal Evaluation: Assignments

Informal evaluation, such as the assignments included in each module, are an invaluable aid to the teacher. They offer ongoing assessment information about the student's achievement and the behaviour and attitudes that affect that achievement.

Each module contains a separate booklet called the Assignment Booklet. This booklet assesses the knowledge or skills that the student has gained from the module. **The student's mark for the module may be based solely on the outcome of learning evident in the assignment booklet; however, you may decide to establish a value for other variables such as attitude or effort.** It is important that you establish at the beginning which outcomes will be evaluated, and that all students clearly understand what is expected.

Final Test

All LFM's include a formal final test which can be photocopied for each member of the class. The test, closely linked to the learning outcomes stated in the module booklets, gives the teacher precise information concerning what each student can or cannot do. Answers, explanations, and marking guides are also included.

The value of the final test and each module is the decision of the classroom teacher. The following is a suggestion for values to be given to each module and the final test.

Module 1 15%	Module 2 10%	Module 3 15%
Final Test 60%		

Introducing Students to the System

Your initiation to these learning materials began with a basic survey of what was included and how the components varied. This same process should be used with the class. After the materials have been explored, a discussion might include the advantages and the disadvantages of learning independently or in small groups. The roles of the students and teacher should be analysed. The necessary progress checks and rules need to be addressed. Your introduction should motivate students and help to build a responsible attitude toward learning autonomously.

Skill Level

It is important for students to understand that there are certain skills they will need in order to deal successfully with the course materials. They include the following:

- understanding and using instructional materials (table of contents, appendices, and glossaries)
- interpreting graphs and charts
- using reference materials

Other general skills are using reliable study methods, outlining, and learning to read at a flexible rate.

To decide the level and amount of instruction needed to accommodate the varied levels among students, you may wish to prepare and administer skill inventories or pretests. If most students need help with a particular skill, you may want to plan a total class instructional session. If only certain students lack a skill, you may want to set up a temporary skill group to help students who need it, or you may want to develop a skills file for this purpose.

Reading Level

These course materials are largely print based, but poorer readers need not be discouraged. It is important that you assure the students that these materials have been designed for easy reading. The authors have employed special strategies that lower and control the reading level. Some of them are

- the conscious selection of vocabulary and careful structuring of sentences to keep the materials at an independent reading level
- the integration of activities, examples, and illustrations to break text into appropriate-sized chunks
- the inclusion of many kinds of organizers (advance, graphic, intermediate, concept mapping, post organizers) to help give students a structure for incorporating new concepts

- the recognition that vocabulary and concepts are basic to understanding content materials and thus, must be handled systematically (defined in context, marginal notes, footnotes, and often in a specialized glossary)
- the acknowledgement that background knowledge and experience play a vital role in comprehension
- the systematic inclusion of illustrations and optional videos to help poorer readers and visual learners, and audiocassettes and software as an alternative to print-based learning
- a variety of formats (paragraphs, lists, charts, etc.) to help poorer readers who do not absorb or retain main ideas easily in paragraph format
- the inclusion of media pathways and activity choices to encourage an active rather than a passive approach
- instruction in a meaningful setting rather than in a contrived, workbook style
- using purposeful reading, viewing, and doing to produce a better interpretation of the course materials
- the recognition that students need structured experiences when reading, viewing, or listening to instructional materials: developing pupil readiness, determining the purpose, providing guided instruction and feedback, rereading if necessary, and extending. (This structure closely resembles the reading process.)

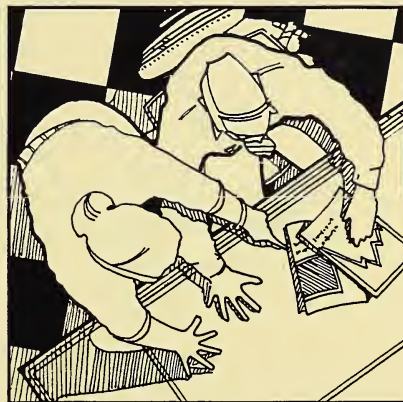
To help make the learning package more readable, you can begin in your module preparation by reading (viewing, listening to) all the related materials that are going to be used. You need a solid background in order to assess and develop a background knowledge for students. The students' experiential bases may be assessed through brainstorming sessions concerning the topic, having students write down all the ideas they have about the topic, or by using visuals and guided questions to predict what the topic might be about.

It is recommended that you start with Module 1 because this module includes basic introductory information, and it is also recommended that you continue working on the remaining two modules in consecutive order since each module builds on knowledge acquired in the previous module.



BASIC BUSINESS 20

Module 1: Canadian Business



LEARNING FACILITATOR'S MANUAL



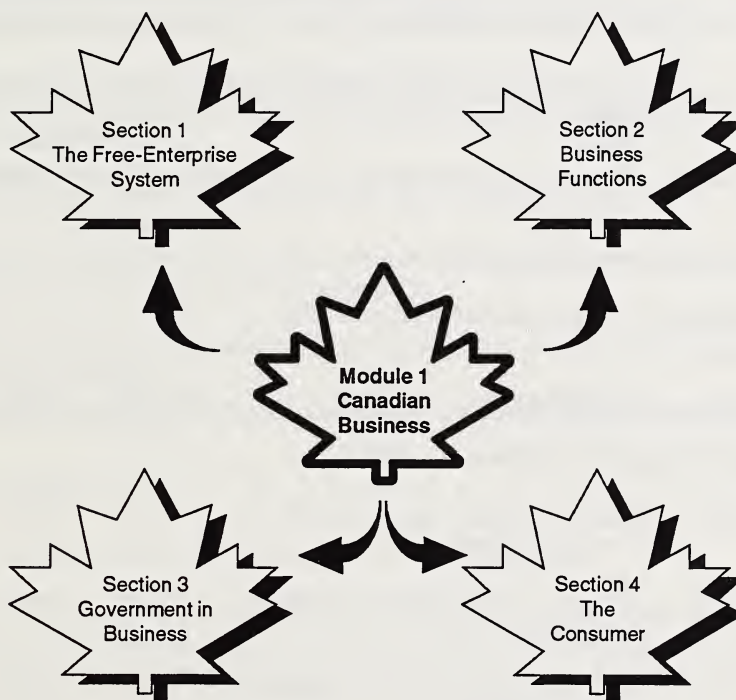
**Distance
Learning**

Alberta
EDUCATION

Module 1: Canadian Business – Overview

In this module students will learn about how Canadian businesses operate in a free marketplace. Students will also examine the types of business organizations, the role of government in Canadian business, and consumers in the business world.

After completing Module 1 students should have an understanding of how the free-enterprise system operates in Canada. Students should have an understanding of how a business functions in its operation. They should know how the government affects businesses. Finally, students should be more aware of how a consumer can be better informed about purchasing decisions. This module gives students a foundation for the remaining Basic Business 20 modules.



Evaluation

The evaluation of this module will be based on four assignments:

Section 1 Assignment	26%
Section 2 Assignment	27%
Section 3 Assignment	24%
Section 4 Assignment	23%
TOTAL	100%

Teaching Suggestions

The following are suggested possibilities for beginning this module:

- Discuss how business affects everything we do and everything we purchase.
- Be flexible in your planning by taking into consideration your students' experiences and interests. Some students will have jobs in business, and these students can be used as resources in the classroom. Remember that changes take place every year in the business world so be prepared to make adjustments.
- Use the resources available to you in your community. Take field trips, bring in guest speakers, and have students complete the assignments using the local business community.
- Use newspapers for up-to-date events in the business world. Follow the exploits of large companies or popular individuals as they deal in business or business events in your community.

Basic Business 20 Videos

The following videos are available from ACCESS.

Cat. No.	Series/Program	Format	Length	Expiry	Unit Price	Total Price
Basic Business 20 – All Mods		VHS60			\$22.75	\$2297.75
3238-01	Business Concepts: Business Ownership: Sole Proprietorship		04:50	Sep/94		
3238-02	Business Concepts: Business Ownership: Partnerships		04:50	Sep/94		
3238-03	Business Concepts: Business Ownership: Corporations Part 1		04:50	Sep/94		
3238-04	Business Concepts: Business Ownership: Corporations Part 2		04:50	Sep/94		
3238-05	Business Concepts: Business Ownership: Franchising		04:50	Sep/94		
2345-09	Give & Take: Market Prices – Supply & Demand		14:38	Nov/92		
2759-05	You And The Law: Insurance		14:30	Aug/93		

Section 1: The Free-Enterprise System

Key Concepts

- characteristics of the free-enterprise system
- the importance of profit in a free-enterprise system
- types of business organizations

The basic goals of this section are to ensure that students

- understand how the free-enterprise system operates in Canada
- can distinguish between the different business organizations
- can discuss the advantages and disadvantages of different types of business organizations

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Bring in businesspeople from different types of business organizations to discuss why they use their particular type of business organization.
- Chart all the local businesses and classify each according to the type of business organization in which it operates.

Section 1: Activity 1

1. List two choices you have had to make as a consumer in the last week.

A variety of choices may be indicated. Two typical examples should be shown. You may have gone to a restaurant or fast-food outlet, so you would have to decide which one to go to, as well as choosing what you wanted to eat. You may have purchased a pair of jeans, in which case you would decide where to buy them, the style and size, and the price you were willing to pay for them.

2. List two businesses that no longer operate in your community. What incorrect choices do you think their owners made?

You should be able to find at least two businesses that no longer operate. The types of incorrect choices the owners made will vary but might include such things as bad management, choosing the wrong product, an increased cost of production, or choosing the wrong supplier.

3. What can the owner of a restaurant do with the profit made from its operation?

Owners can use their profits to expand or improve their business, buy another business, or spend it in a personal way.

4. Name three similar groups of businesses that compete for you as a customer.

Most communities have a variety of similar businesses that compete for your money. Some examples would include service stations, grocery stores, bookstores, hardware stores, banks, and fast-food outlets.

Section 1: Activity 2

1. a. What do you see as the main advantage of free enterprise? Explain.

Advantages of free enterprise include freedom (the ability to choose, whether as a producer or a consumer), an efficient use of resources (the careful use of labour and natural resources to make a profit), new products (new products are presented to meet demands and create new demands), quality and price.

- b. What is the main limitation? Explain.

Limitations of free enterprise include an uneven distribution of resources (the rich get richer while the poor get poorer), a lack of consumer knowledge (it is almost impossible to keep up with new products and make informed purchasing decisions), unhealthy products (for example, cigarettes which have been determined to cause cancer), and environmental pollution by producers exploiting resources and labour.

2. What do you think are the main advantages of a modified free-enterprise system over a complete free-enterprise system?

Advantages could include helping people with lower incomes through income subsidies, providing assistance programs for businesses and individuals, protecting consumers from overpricing, having laws to ensure proper advertising and packaging, and the giving of credit. A total free-enterprise system would not have any government interference.

Section 1: Activity 3

1. On the following chart identify four business organizations in your community and list the approximate number of employees of each business. Then classify each as a small, medium, or large type of business based on your own experience.

There is no correct answer to this activity. It is hoped you have noticed the different sizes and types of businesses in your community. You should have been able to identify businesses ranging from small one-person businesses such as a pool hall or small store, to large businesses such as a pulp mill or oil refinery.

2. What are the responsibilities of the owner in a sole proprietorship?

The owner of a sole proprietorship is responsible for every aspect of the business including purchasing, hiring, managing, bookkeeping, and cleaning.

3. Most studies suggest that the major reason for the failure of a sole proprietorship business is a lack of managerial skills on the part of the owner. In your opinion why is this true?

Many people go into operating a sole proprietorship business with a lack of ability or knowledge in one or more of the different skills needed to successfully operate a business.

4. Where do most of the profits go in a sole proprietorship?

All profits in a sole proprietorship go to the owner.

5. What are two advantages of a partnership?

The answer should include two of the following:

- *more start up money*
- *the skill level increases as more people are involved*
- *the ability to do more work with more bodies*
- *team work*

6. What must be included in a legal partnership document?

The document should be in writing and include the names of the partners involved, the responsibility and duties of each partner, the profits for each partner, the name and location of the business, the amount of capital each partner contributes to the business, and the nature of the business.

7. What is one reason for partnership failure?

A major reason for partnership failure is disagreements between partners.

8. Why does a corporation need many owners?

Many owners are needed to raise large amounts of money or capital for corporations.

9. Where do a corporation's profits go?

Corporation profits go to shareholders in the form of dividends (the amount depends on the number of shares held) or they are reinvested into the business.

10. How many votes does each shareholder have at a shareholder meeting?

There is one vote per share.

11. What is one function of the board of directors of a corporation?

One of the following should be included:

- *hire people to run the business*
- *decide major policies*
- *determine the products to be made*
- *distribute profits*

12. What are two advantages found in operating a franchise?

Include two of the following:

- *having access to training programs*
- *financial help*
- *a supply of products*
- *advertising*
- *no other outlet nearby*

13. What are two disadvantages?

Disadvantages should include the fact that the franchise owner must conform to franchise policies such as the price and type of products handled. There is little room given for originality. Also, monthly or yearly fees reduce profits.

14. List three stores or businesses in your area that you think are co-operatives.

Your list could include Co-op stores, UFA gas stations, Co-op Trust, Co-op Travel, Co-op Hatchery, or credit unions.

Follow-up Activities

Extra Help

1. Carefully examine the following chart of business organizations. In the column labelled “Disadvantages” list two disadvantages for each type of organization.

Some disadvantages for each type of business may include the following:

Sole proprietorship – One person carries out many duties which he or she may not have the ability to perform. One person may not have a large amount of capital to start and run the business.

Partnership – Two or more individuals may not agree all the time, and this will cause friction in the business. There still could be limited capital with a small number of partners and money. There is personal liability for the partners if the company fails.

Corporation – The owners have no personal contact with their customers or employees. Small shareholders do not take an active part in the business. There is high taxation.

Franchise – There are monthly or yearly fees which cut into profits, and strict rules which must be followed. There are few, if any, individual differences between the businesses.

Co-operative – People have only one vote no matter how many shares they own. Returns are based on usage, not on the amount of capital. Other disadvantages are similar to those of corporations.

2. The following terms describe some of the benefits of free enterprise. Beside each term describe how it benefits you directly.

- a. Freedom:

You have the freedom to choose which products you desire.

- b. Efficient use of resources:

This keeps down the cost of products you purchase.

- c. New products:

They give you more and better choices.

- d. Quality and price:

These give better quality and lower-priced products.

3. The following terms describe some of the limitations of free enterprise. Beside each term describe how it affects you directly.

- a. Uneven distribution of resources:

You may be wealthy or you may be at a lower income level.

- b. Lack of consumer knowledge:

You may purchase a product and not have a very good idea of what you are really getting in terms of product quality.

- c. Unhealthy products:

You may purchase products that are harmful to your health or safety.

Enrichment

1. If you were to start a business, what type of business would it be and what type of business organization would you use? Why?

When starting a business, you would likely start in a sole proprietorship or a partnership. The cost to start a corporation or franchise would probably be too expensive when you are first starting out in business.

2. Visit three businesses in your community to find out what type of business organization each operation has, and why that type of organization was chosen. For example, one business may be a franchise, while another business owner may decide to operate as a sole proprietor. Describe each of the businesses in the space provided.

You should have found that some people desired the independence of a sole proprietorship, needed the funds and expertise of a partner, and therefore got into partnerships, or felt a franchise gave them the training and publicity needed to operate a business. Your results will vary but should include some of the points mentioned in this answer.

Section 1 Assignment

1. Define each of the following business terms.

- a. free enterprise

Free enterprise is an economic system without government interference.

b. sole proprietorship

A sole proprietorship is a business owned by only one person.

c. corporation

A corporation is a business owned by shareholders (people) who may or may not be directly involved in its operation.

d. partnership

A partnership is a business organization owned by two or more people.

e. co-operative

A co-operative is a non-profit business organization where the owners are also the main customers.

f. franchise

A franchise is a business whose rights are held by a corporation which rents or sells the rights to duplicate a retail business.

g. modified free enterprise

Modified free enterprise is an economic system based on supply and demand which determines the price and amount of the product produced, but governments play a large role in controlling the system.

h. consumers

Consumers are people who buy products or services.

i. profit

Profit is the money a business has left over after all the expenses are paid.

3 2. What are the three basic rules of free enterprise?

The three basic rules are as follows:

- *Private property is encouraged.*
- *Profit is encouraged.*
- *Competition is encouraged.*

3. What are two advantages and one disadvantage of a sole proprietorship?

The advantages are as follows:

- *The owners will be satisfied with their success.*
- *All profits go to the owner.*
- *Owners have a personal knowledge of all their customers and employees.*

The disadvantages are that the owner

- *may lack certain business skills*
- *has unlimited liability*
- *has limited capital*

4. What are two advantages and one disadvantage of a partnership?

The advantages are as follows:

- *Two people bring in more expertise.*
- *More capital can be brought into the business.*
- *There is shared decision making.*
- *It is easier to borrow money.*

The disadvantages are the following:

- *There is a restricted ability to raise capital.*
- *If the business fails both partners are liable.*
- *Disputes between partners can cause problems.*

5. What are three disadvantages of a franchise?

The disadvantages are the following:

- *Franchise fees may be high.*
- *Franchise owners must conform to strict rules such as advertising and pricing.*
- *There are no individual differences between franchises.*

6. What are three advantages of a corporation?

The advantages are as follows:

- *There are large amounts of capital to invest.*
- *There is a limited liability for owners.*
- *There are a large number of employees with skills in all areas of the business.*

7. How do shareholders control a corporation?

They elect a board of directors, who hire executives to operate the corporation.

Section 2: Business Functions

Key Concepts

- levels of business
- roles of business
- careers in business
- Pacific Rim trade

The basic goals of this section are to ensure that students

- can distinguish between primary, secondary, and tertiary levels of business
- understand the six roles in business: production, marketing, accounting, management, communication, and personnel
- can identify different careers in business
- know how to apply for jobs
- have an understanding of what Pacific Rim trade means to businesses in Canada

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Bring in local businesspeople to discuss how their businesses are operated. Have these people discuss how they hire someone to work for them, and what they look for in an applicant. Have them actually interview one student for a job, and then discuss the interview process.
- Put up maps of the Pacific Rim.
- Keep a bulletin board full of newspaper articles about current business activities. Encourage students to add articles of interest to them.
- Collect a number of job application forms from local businesses; have students fill them in.

Section 2: Activity 1

Describe the three levels of business in the oil and gas industry. Begin with oil below the earth's surface and end with putting oil in your car's engine.

1. *Primary industry – the starting point would be the actual finding and taking oil out of the ground.*
2. *Secondary industry – this level would be the processing or refining of oil at the refinery into gasoline.*
3. *Tertiary industry – this last level would be the gas station selling you gas for your car.*

Section 2: Activity 2

1. Choose a business and outline five major roles or functions within it.

Your answers should include some of the following:

- *advertising*
- *bookkeeping*
- *purchasing or producing products*
- *hiring employees or personnel*
- *letting people know what you are doing (communicating)*
- *training*
- *moving the products to customers*
- *managing the overall business operation*

2. Name three ways businesses advertise.

Businesses advertise through television, radio, newspapers, and magazines.

3. What are three ways in which businesses transport their products?

Businesses transport their products by truck, train, plane, ship, and pipeline.

4. What is needed to make good business decisions?

To make good business decisions, accurate and up-to-date information is needed.

5. What is a budget?

A budget is a financial plan: an estimate of future sales, expenses, and profits.

6. List four ways in which you personally communicate with others?

Some of the ways that you communicate with others includes verbal communication, telephone, notes, letters, computer modem, and fax.

7. If you were an employee of a company, what would be the major factor in making you a better and more efficient employee?

Some possible answers are

- *being happy*
- *liking your job*
- *begin satisfied with your salary or wages*

8. List four functions of a personnel department.

Functions of a personnel department include

- *accepting job applications*
- *training employees*
- *keeping records of all employees*
- *negotiating wage contracts*
- *settling employee problems*

9. What are the four main management functions?

The four main management functions are

- *planning*
- *organizing*
- *directing*
- *controlling*

10. Which of the ten characteristics of successful managers discussed do you possess? Make sure you give yourself credit where you deserve it. If you are not sure if you possess certain characteristics, ask a friend or relative.

Some of your characteristics include fairness, consistency, firmness, caring, tact, a sense of purpose, a positive mental attitude, self-confidence, a sense of humour, and common sense.

Section 2: Activity 3

1. Pick up any newspaper and look through the career and the classified sections and circle ten jobs related to business.

You should find a large number of ads for business-related careers including accounting, bookkeeping, management, office work, and trades.

2. Examine the photographs on page 31 of the textbook. Then examine the chart on “Canadian Labour Force by Occupation” on page 34. Do any of the statistics come as a surprise to you? If so, list them.

You may find it surprising to see that 1 367 000 people have jobs in managerial and administrative positions. Overall, you should notice the large number of occupations in the business field.

3. List two jobs that interest you. What satisfaction would you find with each job? What would not be satisfying?

You are the only person who knows the right answer to this question. Be sure you have looked at every aspect of the career, including training, hours of work, salary, what is important to you now, and what may be important to you in the future.

4. Turn to page 543 in the textbook and answer question 4 of “Applying Your Knowledge.”

Textbook question 4:

There is no correct answer, but be sure you do some research to ensure you have looked at the entire career situation.

5. Career priorities differ from one person to another. List four priorities you would consider when making your career selection.

There is no correct answer to this question, but be sure you have your priorities straight. Take into consideration such future factors as marriage and family commitments. These may not seem important now, but they deserve careful consideration for the future.

6. List four sources where you might look for a job.

There are a number of job sources. Some of the ones you could list are newspapers, friends and relatives, Canada Employment Centres, the counselling or student services department at your school, trade journals, plus actually visiting various businesses and asking about positions.

7. Look in the want ads section of a newspaper and select a job you are interested in. Write an application letter for the job. This activity will be well worth your time as your future job may depend on how you write the application letter. Remember that you are selling yourself and this first impression could make all the difference. Use the letter shown on page 551 in the textbook as a guide.

Read your letter from the point of view of an employer and see if you hire yourself. Give the letter to a friend or relative and have them read it from an employer's standpoint. Ask them if they would actually interview you for the position.

8. Complete a data sheet for yourself. This data sheet or resume can be kept on file for jobs that you apply for in the future. As time goes by you can add work experiences and other qualifications, such as additional education. Use the example given on page 552 of the textbook as a guide.

Read the data sheet or resume from an employer's standpoint and see if you would grant a job interview or hire yourself. Be sure you have included all relevant information such as your name, address, phone number, education, work experience, and references.

9. Now complete the following job application form as neatly and accurately as possible.

When you have finished the job application form, have someone review it to ensure there are no spelling mistakes or omissions and make sure every entry is neat and legible.

10. What are five important points to remember when going for an interview?

When going for an interview

- *be on time*
- *have a neat, well-groomed appearance*
- *be courteous*
- *have good posture*
- *be enthusiastic and interested*
- *be confident*

11. Write a brief follow-up letter thanking Mr. Justine for giving you the opportunity to work at his computer assembly plant.

Your letter should be sincere and to the point. Remember that you will be meeting Mr. Justine again when you are working for his company, and you want to continue to give a good impression.

Section 2: Activity 4

1. Look around your home and find ten purchased products. Examine the labels and indicate where each product is made.

You may notice that several products have been made in Asia.

2. If you were in business would you look at the Pacific Rim region as a threat or an opportunity? Why?

You should look at the Pacific Rim as a great opportunity for your business. With the increasing population of the region, you will have access to a much larger market than you have now. With increased ties between our countries, there will be more business opportunities and a better understanding of each other's cultures.

Follow-up Activities

Extra Help

1. List three other examples from each level of industry.

These are only a few of the many examples that could be used.

Primary: farming, fishing, forestry, oil extraction

Secondary: gold into rings, wheat into bread, wood into furniture and paper

Tertiary: transportation, hotels, banks, sports

2. Which two of the six business functions do you consider to be most important for the success of a business? Why?

Any of the six business roles could be chosen. Reasonable explanations should be given for each choice. Accounting could be mentioned because if you do not know what you are doing financially, it is hard to determine if and where you may be going wrong. Production may be listed because if you do not have a product, you have nothing to sell.

3. Which of the preceding interview tips would you need to practise for the interview?

Whatever your answers are, make sure you practise them with another person or use a tape recorder. This could make the difference between getting or not getting a job.

Enrichment

1. Ask someone to help you role-play the procedure of applying for a job. Use a job that you are interested in and go through the entire job application procedure.

Step 1. Write a job application letter.

Step 2. Complete a resume.

Step 3. Ask someone for a letter of reference.

Step 4. If possible pick up an application form.

Step 5. Have your partner prepare some questions for the job interview and then conduct an actual interview with your partner. Tape the interview so you can refer back to it and make observations about how you did and what things you would do better in a real interview situation.

After listening to the tape you should know if you did a good job in the interview. The entire application procedure is something that is not often practised, but should be, since a job and career may depend on it.

2. Visit a local business in your community, and find out how each of the six functions of businesses are dealt with. Remember that all six may not necessarily be found in all businesses.

After visiting the business you will have an excellent idea about the real business world. You may want to visit another local business and compare how answers to the questions differ. You should have some thoughts on how things could have been done differently in each business. That is what the business world is all about: looking for new and better ways of doing things.

Section 2 Assignment

1. In the space provided indicate whether each statement is **True** or **False**.

False a. Processing is that part of production dealing with the conversion of one form of finished product into another form.

False b. Grade B food products are of a better quality than Grade A products.

False c. The development of new and better quality products is handled jointly through the packaging and advertising departments of a business.

True d. The finances of a business are controlled through its accounting department.

True e. Managers set the long-term goals of a business with the aid of planning.

True f. The development of satellite communications helps to make the sending and receiving of information between businesses more efficient.

False g. Negotiating wage contracts for the employees of a company is usually the responsibility of its accounting department.

True h. It is expected that jobs in the communications technology field will be in greater demand by the year 2000.

True i. Trade journals often contain advertisements for employment positions.

True j. More than 70% of Canada's trade is with the United States.

3

2. Describe the three levels of business when considering Alberta's pulp-and-paper industry.

The three levels of business are:

- *primary – collecting raw materials (cutting down trees)*
- *secondary – businesses using raw materials to develop products (pulp mills produce paper products)*
- *tertiary – businesses in the service industry (such as newspapers and restaurants) use paper for newspapers, paper napkins, and advertising leaflets.*

1

3. Why is it so important to plan ahead for your career?

It is important to know in which direction you are going. Knowing your interests and abilities and having career information should aid you in making a good career decision.

3

4. What are six steps to follow when applying for a job?

The six steps are the following:

- *writing a job application letter*
- *preparing a resume or data sheet*
- *obtaining letters of reference*
- *completing the job application form*
- *having the interview*
- *making a follow-up call or writing a follow-up letter*

1

5. Why is it so important that Canadian businesses prepare for trade with Pacific Rim countries?

It is important to have a large export market. Canadian businesses need to prepare to compete with companies from the Pacific Rim because the world is becoming one large open market.

6

6. In May of next year the Romeo Sierra Company plans to send 5000 packaged boxes of its newly developed Widget ski wax by air freight to its Banff, Alberta branch store. Widget ski wax was extensively researched and tested. An expensive advertising campaign is planned for the Banff area. Name and describe two marketing activities that the company has failed to adequately consider.

There are two obvious marketing areas to consider: storage and transportation. Ordering 5000 boxes of ski wax in May would require extensive storage space until they can be sold during the winter. The company should consider sending a smaller shipment in May or sending the shipment in the late fall or early winter so the wax could be sold quickly when demand is high.

The second area to consider is transportation. It would be cheaper to send the boxes by truck or train rather than by plane. Since there is no rush to get the product to the store, other means of transportation should be investigated.

A third possible area, advertising, could also be considered. It is not feasible to advertise ski wax for sale during the summer months, so the advertising should occur in the late fall and early winter periods.

8

7. Assume the advertisement shown below is taken from your local newspaper and you wish to apply for the position. Complete a handwritten job application form. It is recommended that you fill out the form as you would a regular job application form. However, if you wish you may instead use your imagination and include fictitious information.

Answers will vary.

Section 3: Government in Business

Key Concepts

- government agencies and programs assisting businesses
- government regulations affecting business
- government as a consumer

The basic goals of this section are to ensure that students

- can identify government agencies and programs that offer assistance to businesses
- can explain how government activity affects business

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Invite local businesspeople to speak to your class about their relationships with governments, or visit public and private businesses in your community.
- Pick up information about local business regulations.
- Find out about government incentive or assistance programs in your community which some local businesses are using.
- Put up a wall chart outlining private and public companies.

Section 3: Activity 1

1. What are the two basic functions of government in our economy?

The two basic functions of government are to produce certain goods and services and to ensure democratic principles and freedoms are upheld.

2. List four public-sector services.

Some public sector services include the post office, power companies, road building and maintenance, telephone and telecommunications companies, and hospital services.

3. What is the purpose of the National Job Bank?

The National Job Bank provides a job information exchange with up-to-date information about job openings across Canada.

4. What are two services provided by the Federal Business Development Bank?

The Federal Business Development Bank lends money (particularly to small businesses) and provides training programs in business management.

5. Why would you not want to put a very old stamp on a letter to be mailed?

In some cases old stamps are worth many times their original value.

6. Who shares the overall responsibility for operating and financing education in Alberta?

The provincial government and local school boards are responsible for the operating and financing of education in the province.

7. What services are provided by Alberta's health-care system?

Physician services, the services of specialists, the diagnosis and treatment of illness and injury, surgery, x-ray and laboratory services, and cosmetic surgery are all provided by Alberta's health-care system.

8. List the services provided by your municipal government.

Answers will vary depending on where you live, but in general they will include garbage collection, water and sewer services, recreation services, and building inspectors.

9. Where does the federal government get the revenue that it uses to provide assistance to various businesses?

The government gets the money from taxpayers.

10. What is meant by the term *seed money*?

Seed money is money that the government gives to private businesses to help them employ Canadians.

Section 3: Activity 2

1. Turn to page 108 in the textbook and answer “Review Questions” 2, 8, and 11.

Textbook question 2:

Governments issue business permits, pass zoning bylaws, assess taxes, and regulate employment practices. Governments also regulate product and industrial safety, and the import/export of goods.

Textbook question 8:

The government has enacted laws for patents and copyrights. These regulations permit individuals and businesses to lay claim to original works or inventions for a certain period of time.

Textbook question 11:

- a. provincial
 - b. federal
 - c. provincial/municipal
 - d. federal
 - e. provincial
 - f. federal
2. How are property taxes assessed?

Property taxes are based on a percentage of the property value.

3. Why does government compete with private business?

Government competition with businesses has been brought about by the need to develop Canadian resources to the fullest in the shortest length of time. It would be uneconomical for a private business to initiate such ventures knowing that profits may not be realized for many years, if ever. This competition ensures that goods and services are made available to as many Canadians as possible at the cheapest cost. Reasons of a political or philosophical nature may also have some effect on decisions that are made.

Follow-up Activities

Extra Help

1. Why are the functions of each level of government divided as they are?

The division of duties has been developed so the best possible branch of government is responsible for a particular area. It would make little sense to have a municipal government responsible for immigration. Canada Post is best handled by the federal government because of the national focus of the mail.

2. Why are all the regulations not assigned and administered by one level of government?

Each level of government is responsible for only services that are closely related to people in its area. For example, while both federal and provincial governments are involved in highway construction and maintenance, roads and road maintenance are easier to administer from a municipality which is close at hand rather than from a provincial or federal government which is at a distance.

Enrichment

1. Visit your municipality, town, or city hall and ask for a copy of the business-operating regulations in your community. Look through the information and list two regulations that you think would be difficult for businesses to control. Explain why.

You should find the basic information described in Section 3 of Module 1.

2. Make arrangements to meet or talk with the owner or a representative of three local businesses and ask each person the following questions dealing with government involvement in each business. Add at least one question of your own.

Answers will vary, but should include some of the following:

- a. Has your business ever used any government assistance programs? If so, what types?

Businesses can make use of government assistance programs like tax exemptions and information packages.

- b. Does a crown corporation compete with your business? If so, what type of government business do you have to compete with?

Crown corporations that compete with private businesses include Petro Canada Inc., Alberta Treasury Branches, and CBC Television. Private golf courses compete with city-run courses.

- c. What major government regulations does your business have to follow?

There are government regulations regarding permits and licences, taxes, building codes, minimum wage, vacation pay, land use regulations, industrial health, and safety standards.

- d. Make up your own question(s) here.

Answers will vary.

Section 3 Assignment

10

1. Match the letter of each level of government noted to the appropriate situation indicated.

F for federal government, P for provincial government, and M for municipal government

- | | |
|------------------|--|
| <u>M</u> | a. a 1.5% increase in secondary school taxes |
| <u>P</u> | b. increasing the minimum wage to \$5/hr. |
| <u>F</u> | c. the formation of a new air force squadron |
| <u>P & F</u> | d. the amount of sulphur dioxide emissions allowed into the air by coal-fixed power plants |
| <u>M</u> | e. a new building code on the thickness of insulation for apartments |
| <u>P</u> | f. introducing the third Monday in February as a Family Day holiday |
| <u>P</u> | g. registering the Romeo Sierra Company as a corporation |
| <u>F</u> | h. a change in the number of immigrants allowed per year to come into Canada |
| <u>M</u> | i. a 3% increase in homeowner's property tax |
| <u>P</u> | j. introduction of a high school course in hotel management |

2

2. Why is it necessary to have public goods and services provided by government agencies when there is an abundance of private goods and services?

Some goods and services are too costly for the private sector to produce and, as a result, private businesses will not invest in these ventures. Governments provide these items to meet consumer demands in the marketplace. In some cases these goods and services are not provided by private businesses, and in other cases government outlets compete with the private sector.

2

3. List and describe two incentive programs to employ Canadians that governments offer to private businesses.

Any two of the following programs are acceptable:

- *Skill investment – This program trains people, whose jobs have become obsolete, for future employment.*
- *Job entry – These training and work experience programs help people enter the workforce.*
- *Community futures – These programs help communities that are experiencing problems due to plant closures, large layoffs, and chronic unemployment.*

2

4. Competition in the private sector is a consumer's best friend. Explain why this statement is true.

Competition keeps businesses seeking out the best goods or services to offer at the cheapest prices.

2

5. Of what use are federal government research facilities, such as the National Research Council, to small manufacturing businesses in Canada?

The research facilities can be used by manufacturing businesses for advice and assistance. Small manufacturing companies usually do not have research facilities of their own, so government research facilities can be used. For example, field engineers can give small businesses advice on matters such as plant design, product packaging, and distribution.

2

6. Air Canada is a crown corporation of the federal government. It operates in direct competition with private airlines. Why does the federal government allow such a situation of competition to exist?

The key concept to remember is that the purpose of crown corporations is to provide essential services to Canadians. Canada's population is distributed over a large area. Air Canada provides transportation links to many isolated communities, such as Rankin Inlet and Frobisher Bay, which private airlines will not service because of high costs.

4

7. Health care in Canada is one of the major programs funded and operated by government. In the United States health care services for most people are financed through private-sector businesses such as insurance companies and company insurance plans. The government of Canada has stated that Canada has one of the finest health care plans in the world. Using the textbook and any other references you can find, give two reasons supporting Canada's position.

A variety of reasons can be indicated:

- *All patients receive equal treatment.*
- *The cost of the health care plan in Canada is less expensive than it is in the United States, since Canada's plan does not have to be run for profit.*
- *Medical personnel across Canada get paid approximately the same amount for performing medical procedures.*
- *The quality of medical personnel, and standards used for medical procedures, are more uniform on a national basis. Inequality may occur on a state-versus-state basis in the United States.*

Section 4: The Consumer

Key Concepts

- the effect of consumer demands
- needs and wants
- advertising as it relates to product demand
- agencies assisting consumers
- protective legislation

The basic goals of this section are to ensure that students

- can explain how consumer demands affect the marketplace
- can distinguish between needs and wants
- can describe the effects of advertising
- recognize the roles government and private agencies play in protecting consumers

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Compare the price of popular products now and in the future.
- Put up a wall chart of different types of advertisements.
- Examine questionable advertising.
- Bring in a variety of promotional products from your community.
- Have local businesspeople discuss advertising techniques which they use.
- Pick up information (brochures, pamphlets, etc.) from government and private consumer protection agencies.

Section 4: Activity 1

1. List three needs and three wants.

Needs include food, clothing, shelter, and water.

Wants will be your personal desires. For example, you may want a television, skateboard, motorcycle, car, a trip to Jamaica, or ten pairs of leather shoes.

2. Describe how low and high prices affect the demand for a product.

Higher prices tend to decrease the demand for a product, while lower prices tend to increase the demand.

Section 4: Activity 2

1. List six forms of advertising.

Forms of advertising include any of the following:

- television
- radio
- newspapers
- magazines
- billboards
- direct mail
- business window advertisements
- advertising on the outside of buses or taxis

2. List two advertisements or quotes from advertisements you can remember.

There are many correct answers, but you will probably remember quotes such as “Coke is it.”®

3. Name two things that grocery stores can use as promotional techniques to gain customers.

Grocery stores can use promotional techniques like having contests, giving out pens, sponsoring local athletic teams, redeeming coupons, and giving discounts on certain days of the month.

4. List three items your family has bought that you really did not need, but you were influenced to purchase by some form of advertising.

You might have problems answering this question because people think they need everything. If you examine a storage closet or the garage you will usually find items which are not used. These items may be quite useless, but an advertisement may have influenced you to purchase them.

Section 4: Activity 3

1. Why was the *Hazardous Products Act* passed?

*The **Hazardous Products Act** was passed to help ensure consumer safety. Research showed young children were suffering injuries from dangerous products.*

2. Examine three items of your clothing and indicate the type or types of fabric which make up each article.

There are no correct answers, but you should have found the types of fibre used and the percentages of each fibre on the clothing label.

3. Refer to page 433 in the textbook and answer question 8 of the “Review Questions.”

Textbook question 8:

Its main purpose is to provide a detailed set of rules and regulations for the packaging and labelling of most consumer products, in order to help consumers make informed choices when they purchase packaged goods. The act came into effect gradually between 1971 and 1976 in order to allow manufacturers time to make the necessary package and label changes required by law.

4. Turn to page 219 in the textbook and examine Figure 14.1. Look at the advertisement and indicate two ways in which it could be made to mislead the consumer.

There is no one correct answer, but it would be easy to mislead a consumer in several ways. One example would include Mr. Gretzky claiming he uses the insurance company when, in fact, he uses another insurance firm. Another example is the insurance company claiming that if you use their insurance, you can be as good a hockey player as Wayne Gretzky.

5. What help does the *Food and Drugs Act* give consumers?

*The **Food and Drugs Act** helps protect consumers from injury, and from fraud and deception in relation to food, drugs, and cosmetics.*

6. What are six qualities used to grade fruits and vegetables?

Fruits and vegetables are graded according to

- flavour
- shape
- colour
- size
- tenderness
- maturity
- freedom from defects

7. What grade of beef would have the lowest level of fat content?

Canada A1 has the lowest level of fat content.

8. What is the purpose of the *Unfair Trade Practices Act*?

The Unfair Trade Practices Act requires businesses to maintain a reasonable standard of conduct when selling goods and services. Its purpose is to protect both consumers and reputable businesses from dishonest businesspeople.

9. List three examples where a consumer is unable to reasonably understand the nature of a consumer transaction.

Some examples include

- *being intoxicated*
- *not speaking the same language as the salesperson*
- *having mental illness*
- *being visually impaired and unable to read the exact nature of the contract*

10. Why is it important that all three elements noted in Transaction 3 must be present for an unfair trade practice to take place?

All three elements must be included so there is justice for both the seller and the consumer. There must be a major fault present so the consumer does not get most of the product's value and then decide he or she does not want the product.

11. Can you think of two examples of unfair trade practice?

*Many examples of unfair trade practices may be listed. They include advertising that a kettle can boil water in two minutes when it really takes seven minutes, or a used-car dealer saying that a car was used as an executive company car when, in fact, it had been a lease vehicle. Both situations are liable under the *Unfair Trade Practices Act*.*

12. Why do you think it is important for consumers to have four days to change their minds if a sale is made in their home?

Four days are given to consumers because of the pressure of having a salesperson in their home. The four days allow consumers to shop around and compare products.

Section 4: Activity 4

1. What are the four major purposes of the Consumers' Association of Canada?

The Consumers' Association of Canada

- presents consumers' views to governments
- unites consumers in an attempt to improve their standard of living
- studies consumer problems and makes recommendations to the appropriate government, industry, or business organization
- provides information about consumer goods and services by conducting tests and rating products on the basis of quality

2. How is the Consumers' Association of Canada funded?

It is funded through membership fees, the sale of publications, and government grants.

3. How does the Better Business Bureau resolve problems between a consumer and retailer?

The Better Business Bureau initially tries to put the consumer and retailer together to work things out themselves. If this does not solve the problem, then the customer complaint is placed into a file on the company in question and reported to callers asking about the companies' reputation. The bureau could also appoint a mediator to resolve the dispute.

4. What does a CSA certification mark on a home appliance mean?

It means the product has met safety standards, especially against electrical shock and fire hazard. A CSA certification mark also means the product is safe for home use.

5. List three household appliances in your home which carry a CSA certification mark.

You should be able to find the CSA certification mark on all appliances such as stoves, microwaves, toasters, coffeemakers, and electric knives.

6. What are the ratings in the publication *Lemon Aid* based on?

The ratings are based on the following:

- consumer complaints
- tests conducted on vehicles
- reports from garages
- comments from people within the automotive industry

7. Refer to page 449 in the textbook and answer question 7 in the “Applying Your Knowledge” section.

Textbook question 7:

Making consumer information publications available to consumers is a good public service. There is a need for such information, and business organizations are attempting to meet that need. It also helps businesses sell their products.

Follow-up Activities

Extra Help

1. Turn to page 11 in the textbook and answer question 2 of “Applying Your Knowledge.”

Textbook question 2:

In a warm climate there would be less need for warm clothing, insulated homes, and furnaces. There would be more of a need for cooling equipment, a swimming pool, light clothing, and swimsuits. Needs and wants for transportation, leisure activities, and food and beverages would likely change.

2. Turn to page 416 in the textbook and complete question 1 of “Applying Your Knowledge.”

Textbook question 1:

Most problems of unsatisfactory purchases might have been avoided by comparison shopping, reading consumer magazines for comparison test ratings, talking to friends and neighbours who have made similar purchases, and by resisting impulse buying.

3. What are three types of advertisements used by businesses to persuade customers to buy their products?

The advertisements used are testimonial ads, emotional ads, repetitive ads, and informative ads.

4. What are three sales promotion techniques?

Examples of sales promotions include redeemable coupons, free gifts, discount sales, contests, and the sponsorship of athletic teams.

5. Which government acts protect consumers in the areas of safety and advertising practices?

There are five acts which protect consumers including the Hazardous Products Act, Unfair Trade Practices Act, Textile Labelling Act, Combines Investigation Act, Food and Drugs Act, and the Consumer Packaging and Labelling Act.

Enrichment

1. Refer to page 434 in the textbook and do the “Packaging and Labelling Project.”

The following chart is set up to indicate apple juice. One fictitious sample is included in the chart under Brand 1. Brands 2 and 3 will follow the same format as Brand 1.

You should find the label information is in both French and English.

2. Find a product that you or someone in your family is planning to purchase in the near future. Search for consumer information about the item. Go to the library and do a comparison of the brands of the product you are planning to purchase. Information can be found in magazines like *Canadian Consumer* and *Consumer Reports*. Try to answer the following questions while doing your research:
 - Were tests conducted on similar products?
 - What were the results of brand tests, including the best and worst buys?
 - Is there a relationship between price and quality?
 - Is the product brand that you were planning to buy before you did this research the same as your current preference?

You should find a number of tests conducted on the products. These tests will show how the various products did, and recommend which should be purchased. The consumer agencies will indicate which product is best for the price paid. Have you selected the best product to purchase?

Section 4 Assignment

10

1. You have learned that there are generally five types of advertising used by businesses to persuade consumers to buy a product. Match the letter of the advertising type listed to the advertising situation indicated.

- A. Testimonial of a popular figure
- B. Testimonial of an ordinary person
- C. Emotional
- D. Repetitive
- E. Informative

- C a. Give and support the XYZ campaign. These pictures show starving children in East Africa. You can prevent starvation by giving generously.
- D b. It's the XYZ store. Yes, the XYZ store that has the best values and savings. No waiting. Instant delivery from the XYZ store. Give XYZ a try next time you are in the market to purchase.
- B c. In the 20 years I have been a carpenter, I have used XYZ hammers and have never had any trouble.
- E d. Brand XYZ cereal is healthier since it contains 12% less fat and 16% more protein than comparable brands.
- C e. If you don't insure your vehicle with XYZ company, you're in trouble. It can take much longer to settle a claim with other companies if your car is damaged in an accident.
- A f. Pilot John Smith of the space shuttle Viking says, "I won't fly anywhere unless Brand XYZ rocket fuel is used."
- E g. In a recent customer survey 42% of all drivers said they use Brand XYZ tires.
- A h. Race car driver Mary Jones says, "When I travel, I use XYZ credit card. I don't go anywhere without it."
- B i. I tried other detergents, but they never got my children's clothes clean. But with Brand XYZ, I was amazed. Their clothes became as clean and white as the day I bought them.
- C j. Restless? Can't sleep? Upset stomach? Headache? For these and other types of irregularity, try Brand XYZ. It works!

2

2. Why do some companies advertise in magazines instead of newspapers?

Newspapers are generally discarded within a few days, whereas magazines are kept longer. In other words, newspapers are geared for short-term advertising, while magazine advertising is normally of a long-term nature.

2

3. What is the purpose of the *Combines Investigation Act*? Why is it so important?

*The purpose of the **Combines Investigation Act** is to regulate Canadian advertising. The act is important because of the power of advertising; misleading advertising can influence consumers to make poor decisions.*

2

4. What is the Automobile Protection Association and how does it accomplish its purpose?

It is an organization which provides assistance to Canadian drivers who are victims of dishonest or dangerous practices within the automobile industry. The APA rates new and used cars and publishes this information.

1

5. Refer to page 434 of the textbook and answer question 8.

Each level of government must pass consumer protection legislation because each has a responsibility for different concerns. The federal government department, Consumer and Corporate Affairs, deals with the regulation of products that consumers buy. The provincial governments are concerned about the protection of the consumer at the time of purchase. They also support the business community by establishing codes of conduct.

1

6. Turn to page 434 of the textbook and answer question 9.

This legislation curtails the right of dishonest businesspeople to operate without legal action being taken against them. The existence of such legislation outlines dishonest and unfair business practices that consumers should avoid.

5

7. The XYZ Company sells rebuilt automobile parts to a wide variety of customers. In May the company purchased a shipment of disc brake pads from the RST Company, which offered exceptionally low prices. By August about half the shipment had been sold. The owner of XYZ Company is notified that the shipment received was defective because substandard brake linings were used: the linings deteriorate in cold weather, causing premature brake failure. RST Company is no longer in business. The owner of XYZ Company decides to ignore the notification and continues to sell the rest of the shipment since no customer has complained.

- a. Is the owner violating any laws (or act)? If so, which act is being violated and how is it being violated?

*Yes, the owner is violating the **Unfair Trade Practices Act**. There is a violation because the owner continues to sell the defective brake pads despite being notified of the substandard brake linings. The study guide indicates that it is an unfair practice for a supplier to enter into a consumer transaction when three circumstances occur. These are: the supplier knows the goods are defective; the consumer could not reasonably become aware of the defect; and the defect in the goods could reduce the expected value or benefit. In the XYZ example, all three circumstances occur.*

- b. Does the fact that no customers have complained and returned the pads have anything to do with the situation? If so, how does it affect the situation?

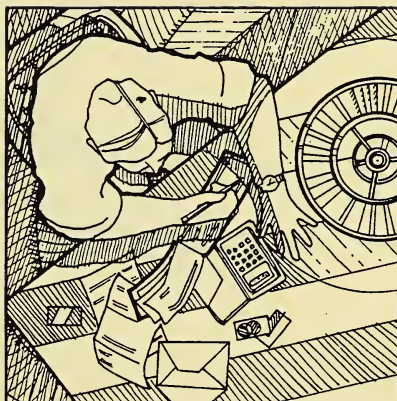
*No, because the **Unfair Trade Practices Act** states that complaining and returning the product is not a necessary requirement. However, if the customer becomes aware of the situation, a legal case could occur where the courts award damages: it depends whether the customer purchased the pads before or after the owner was notified of the defect.*

- c. What should the owner of XYZ Company do when presented with the notification?

The owner should remove all of the defective brake pads, and no longer sell that brand of product to customers.

BASIC BUSINESS 20

Module 2: Consumer Credit



LEARNING FACILITATOR'S MANUAL

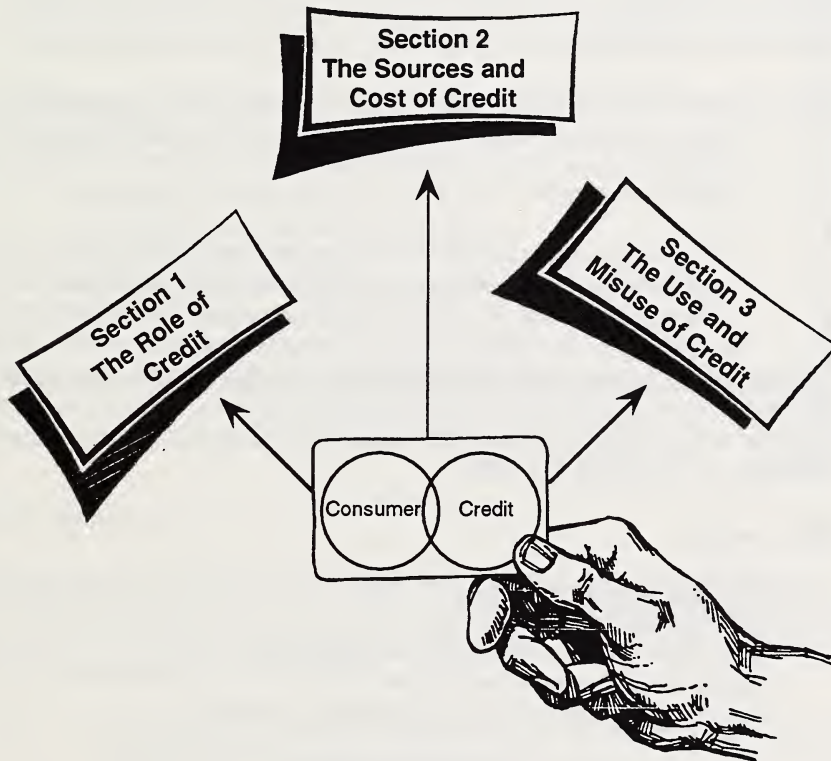


Alberta
EDUCATION

Module 2: Consumer Credit – Overview

In this module students will learn what credit is, how it is obtained, and how it can be used wisely. The use of credit has become so commonplace in today's society, that students must develop an awareness of these essential points. The three sections presented in this module are: The Role of Credit, The Sources and Cost of Credit, and The Use and Misuse of Credit. Specialized topics are included in each section.

Following is a chart that shows how this module is organized.



Evaluation

The evaluation of this module will be based on three assignments:

Section 1 Assignment	35%
Section 2 Assignment	30%
Section 3 Assignment	35%
TOTAL	100%

Teaching Suggestions

The following are suggested possibilities for beginning this module:

- Begin with a class discussion about how students think credit affects
 - them personally
 - their family
 - society
 - business
 - government
- Have students write as much as they can about credit. Their comments may include such things as the types of credit cards they are familiar with, what businesses they think will accept credit, how the students might get credit, and why credit is denied to certain people. Discuss the responses.
- Using a supply of magazines and newspapers that you provide, or that you have students bring to class, have students make a collage showing all of the different advertising that promotes the use of credit. Once this is done, have the class analyse the ads to see if the use of credit is promoted more prominently for certain kinds of purchases. Discuss the findings.

Section 1: The Role of Credit

Key Concepts

- **advantages and disadvantages of credit**
- **types of credit available**
- **effects credit has on consumption and production**
- **reasons for the increased use of credit**
- **the difference between long and short-term credit costs**

The basic goals of this section are to ensure that students

- explain the meaning of credit
- discuss the advantages and disadvantages of using credit
- outline the types of credit available to consumers
- describe the effects that credit has on consumption and production in the marketplace

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Have students visit a variety of retail stores to collect various brochures and information about the credit that is offered by each outlet. Once the information has been gathered, have the students compile a report or prepare a bulletin board display.
- Bring in sample bank forms that show what a credit application looks like. Students could each be given a copy to fill out. An alternative might be to set up a role-playing situation, where one student acts as the loans officer, and the other plays the part of the customer.
- Have students analyse the credit behaviour of someone they know. They should interview the person, finding out such things as the following:
 - what kinds of credit cards they may have
 - what kinds of credit accounts they may have
 - the types of things they purchase on credit
 - how they decide whether or not to purchase something on credit
 - any other pertinent questions

This information should be written up in report form. You may want to have students do a classroom presentation. A variation of this would be to have students work in pairs or groups.

Section 1: Activity 1

1. From the following list identify whether or not each statement identifies an advantage or a disadvantage of using credit. In some cases the statement will not identify either an advantage or a disadvantage of using credit. Mark A for an advantage, D for a disadvantage, and S for a statement (neither an advantage nor a disadvantage).

- A a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.
- D b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.
- S c. Felix believes that using his credit card to make purchases gives him status. "People will really think I am somebody if I have a credit card."
- A d. "I need to buy a new car, but I just cannot seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way it forces me to save."

- A e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have otherwise afforded.
- S f. Todd firmly believes in making all of his purchases with cash. He just cannot understand why people seem to buy so many things they cannot afford. "If you do not have the cash in the bank, then forget it!"
- A g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"
- D h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just cannot seem to stop myself from buying things I really do not need. I just cannot help myself."

2. What is the chief reason given for the convenience advantage of using credit?

The chief reason given for the convenience advantage of using credit is that it is often safer and easier to use than cash.

3. The convenience advantage of using credit identifies four specific examples of how using credit may be beneficial. What are they?

- The need to carry large amounts of cash is diminished.*
- Purchases can be closely monitored, which can help in budgeting.*
- The consumer can take advantage of sales.*
- There is a smaller financial burden when you are purchasing major items.*

4. Explain how people who have trouble saving money are able to take advantage of credit purchases.

People who have trouble saving money are able to take advantage of purchasing on credit because it forces them to make payments on goods and/or services that they otherwise would not be able to save for. They are therefore able to increase their standard of living.

5. Why does having access to credit give some consumers "peace of mind?"

Having access to credit gives some consumers peace of mind because they know they will now be able to handle financial emergencies.

6. What do you think would happen if people were unable to use credit to make large expenditures such as purchasing houses?

Opinions will vary, but should be similar to the following statements. If people were unable to use credit to make large expenditures, then fewer people would be able to purchase a house. It is also conceivable that people would be forced to adopt a much more stringent attitude toward saving money. And the "dream" of owning a house would probably be written off as an impossibility.

7. Why is it important for a consumer to consider interest costs when making a credit purchase?

It is important for a consumer to consider interest costs when making a credit purchase because it increases the actual price consumers pay for the good or service.

8. What is the problem with impulse buying?

Impulse buying becomes a problem when consumers are unable to control their spending habits, often buying items that are not really needed, or expensive items that they cannot afford.

9. From the list shown (which you used earlier), identify exactly which advantage or disadvantage is being illustrated in each statement. Remember that in some cases the statement will not identify either an advantage or a disadvantage.

If the statement is an advantage, mark **A-1** for Advantage 1: Convenience; **A-2** for Advantage 2: Emergencies; **A-3** for Advantage 3: Forced Savings; or **A-4** for Advantage 4: Large Expenditures. If the statement is a disadvantage, mark **D-1** for Disadvantage 1: Interest Costs; or **D-2** for Disadvantage 2: Impulse Buying. Mark **S** for statement if none of the previous categories apply.

- A-1 a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.
- D-1 b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.
- S c. Felix believes that using his credit card to make purchases gives him status. "People will really think I am somebody if I have a credit card."
- A-3 d. "I need to buy a new car, but I just cannot seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way it forces me to save."
- A-2 e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have otherwise afforded.
- S f. Todd firmly believes in making all of his purchases with cash. He just cannot understand why people seem to buy so many things they cannot afford. "If you do not have cash in the bank, then forget it!"
- Note: An advantage may be that you do not get into trouble with debt, but a disadvantage could be that money-saving purchases cannot be capitalized on if ready cash is not available.*
- A-4 g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"
- D-2 h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just cannot seem to stop myself from buying things I really do not need. I just cannot help myself."

Section 1: Activity 2

1. Who is retail credit designed to help?

Retail credit is designed to help people who wish to buy goods or services from different businesses. It is also designed to help the sellers sell more of their products. Businesses which offer their own credit cards can profit doubly from a transaction, by making additional profit through the financing of credit – this is why some businesses will not allow the use of any credit cards except their own.

2. If a consumer wishes to purchase a stereo with a major credit card, which type of account is he or she using?

A revolving credit account (credit card) is being used.

3. What kind of account will most likely be used if a consumer wishes to purchase a car on credit?

An instalment account (large expenditures) is most likely being used.

4. An account in which there is no interest charged for a period of thirty days is opened on behalf of a customer. What kind of account is this?

This is a regular credit account (charge account). It could also be a credit card account.

5. At what point does the buyer of an item have legal ownership of the item if it was purchased on an instalment account?

The buyer does not legally own goods purchased on an instalment account until the final payment is made.

6. If a buyer defaults on payments where a conditional sales contract is involved, what three options does the seller have?

If a buyer defaults on the payment of a conditional sales contract, the seller can renegotiate the contract with the buyer (generally preferred) or repossess the goods. A third option (as indicated in the notes) is to demand payment in full.

7. What is the key benefit of a cash credit loan to the consumer as compared to retail credit?

The key benefit to the consumer of a cash loan or cash credit over a retail credit is that consumers actually possess the money, giving them the freedom to shop around for the best bargains. And the rate of interest of a cash loan or cash credit is generally lower than that of a retail or sales credit.

8. Why do interest rates for mortgages tend to be much lower than they are for other forms of credit?

Interest rates for mortgages tend to be much lower than they are for other forms of credit because, in the case of a mortgage, the house is collateral for the loan. It is very likely that the financial institution will be able to foreclose on the mortgage and redeem its claim if the loan is not repaid. Other forms of credit are generally not as secure, therefore interest rates are higher.

9. What is an instalment loan?

An instalment loan is obtained from a financial institution and is a loan in the form of money. Once the loan is approved, the money is placed in the customer's account, from where the customer may make a desired purchase. The loan must be repaid in fixed amounts according to a specified repayment schedule.

10. In what way is a chattel mortgage a unique form of instalment loan?

A chattel mortgage is a unique form of an instalment loan because it is generally restricted to chattels that have serial or registration numbers. The item itself becomes collateral for the loan, therefore making it easier to repossess because it is so identifiable. Not all instalment loans require collateral, nor are all instalment loans chattel mortgages.

11. Under what circumstances would a consumer need a demand loan?

A consumer would be in need of a demand loan to bridge the gap between a large expenditure being made, and a large amount of money coming in. A demand loan is meant to be of a short-term, temporary nature.

12. How does service credit differ from most other forms of credit?

Service credit differs from most other forms of credit because people do not generally borrow money to pay for it. However, service credit is still a form of credit because it is used for services that consumers use, or consume, all month long but do not pay for until the end of the month.

13. What happens if a consumer fails to make payments for a consumable service?

If a consumer fails to pay for a consumable service, the only option the company has is to terminate or disconnect the service. One cannot repossess a service. However, a company may use the client's security deposit to cover any outstanding charges.

14. Describe how credit has a positive effect on consumption.

Credit has a positive effect on consumption because it enables consumers to make purchases that enhance their standard of living. Credit also permits consumers to take advantage of sales, and keep money in the bank earning interest until the payment must be made.

15. Describe how credit has a negative effect on consumption.

Credit has a negative effect on consumption because some people use credit beyond their means, either increasing or making it difficult to eliminate their debts. Credit also increases the costs charged to other borrowers when the costs involved in repossession are passed on.

16. How does credit benefit production?

Credit benefits production because increased consumption translates into increased production, therefore employing more workers and increasing profits.

Follow-up Activities

Extra Help

1. Turn to pages 460 and 461 in the textbook and answer “Review Questions” 1 to 5, and 11.

Textbook question 1:

Credit occurs when you purchase something now, but pay for it at a later date. Advantages to using credit are

- *convenience*
- *emergencies*
- *forced savings*
- *large expenditures*

Textbook question 2:

Seven items (two additional items have been added here) commonly bought on credit include the following:

- *motor vehicles*
- *real property*
- *travel*
- *entertainment*
- *restaurant services*
- *chattel goods*
- *miscellaneous items*

Textbook question 3:

Forced savings are demonstrated when a consumer makes a purchase on credit and then makes the payments necessary to pay for the goods or services, as opposed to saving for the item and paying cash for it.

Textbook question 4:

Interest is charged for credit because it is the price you pay for the service of borrowing from someone else.

Textbook question 5:

Impulse buying happens when consumers purchase goods they really do not need: consumers often cannot really afford to buy these items.

Textbook question 11:

Stores benefit from the use of credit because the availability of credit to consumers tends to increase their purchase of goods, therefore increasing retail profits.

2. Turn to pages 460 and 461 in the textbook and answer “Review Questions” 6 to 10, and 12.

Textbook question 6:

Stores offer credit plans in order to attract more customers and to increase sales.

Textbook question 7:

A regular credit account does not have interest charged on it if the account is paid in full within the specified time period. By the end of the time period the account must be paid, otherwise interest is usually charged and the balance may be transferred to a revolving credit account.

Textbook question 8:

A revolving credit account gives a consumer the freedom to continually make purchases and payments on their account, provided he or she does not exceed the credit limit. Monthly minimum payments must be made, with interest charged on any unpaid balance.

Textbook question 9:

Items usually purchased on instalment accounts are large expenditures such as cars, recreational vehicles, furniture, and appliances.

Textbook question 10:

Until the last payment is made, the seller has legal ownership of the goods purchased on an instalment account.

Textbook question 12:

Cash loans from financial institutions are set at lower interest rates than are either instalment accounts or credit card accounts.

3. Turn to page 469 in the textbook and answer “Review Questions” 1 to 7.

Textbook question 1:

Three groups in the Canadian economy that use credit are

- *consumers*
- *businesses*
- *governments*

Textbook question 2:

Offering credit to customers is a way for businesses to increase sales.

Textbook question 3:

Retail credit and cash credit loans are two main types of credit used by families and individuals.

Textbook question 4:

Large department stores and retail chain stores offer their own credit plans.

Textbook question 5:

The advantage to the store owner of a universal credit card plan is that small merchants can be competitive with larger stores. Small merchants also do not have to finance their own credit departments. The benefit to the consumer is that each shopper receives a statement from his or her credit card company showing all of the expenditures, interest charges, etc., and then the consumer only has to make one payment. The consumer can use just one card in numerous places, which makes shopping more convenient.

Textbook question 6:

The most commonly purchased item with a mortgage loan is a family home.

Textbook question 7:

The customer is required to have a loan approved by a loans officer. Once the loans officer is satisfied that all requirements have been met, the money is transferred to the customer's account, and the customer may make the desired purchase.

Enrichment

1. Turn to page 461 of your textbook and do question 1 of “Problems and Projects.”

Note: You will have to supply your own materials (newspaper, poster paper, felt pens, etc.) for this project.

Select five businesses (that sell goods) from your community, perhaps several that you know well, and a few that you may be curious about. Be sure to either phone to arrange an appointment or if you do just walk in, make sure that it is convenient for someone to assist you. If you let people at the business know that you are working on a project, they will probably be glad to help you. Obtain any publications from the businesses that will help you create your chart. Be neat and thorough in the presentation of your data. A sample chart with two businesses follows.

NAME OF BUSINESS	TYPE(S) OF ACCOUNTS (AND FEATURES)
<i>Jensen Interiors Co. Ltd.</i>	<p>A. <i>Revolving credit accounts</i></p> <ul style="list-style-type: none"> – <i>Jensen Interiors Co. Ltd. credit card</i> – <i>preferred clients</i> – <i>26% interest rate</i> – <i>\$2000 limit</i> – <i>accept all major credit cards</i> <p>B. <i>Instalment Account</i></p> <ul style="list-style-type: none"> – <i>fixed monthly payments</i> – <i>payment schedules of 12, 24, and 36 months</i> – <i>minimum purchase of \$500</i>
<i>Cooper's Car Emporium</i>	<p>A. <i>Instalment Account</i></p> <ul style="list-style-type: none"> – <i>conditional sales contracts</i> – <i>handled by Meredith Finance Co.</i> – <i>fixed monthly payments</i> – <i>payment terms of 1 to 5 years</i>

2. Interview two people that you know quite well who use credit to some extent. Use the following outline to record your answers.

This is a sample of the kind of information you should obtain.

Person 1: Name (or at least their relationship – i.e., friend)

Credit cards/accounts: List all major credit cards, retail credit cards, and credit accounts.

Frequency credit is used: Circle one Never Sometimes Often

Reasons for using credit: May include any of the following: convenience, emergencies, forced savings, large expenditures.

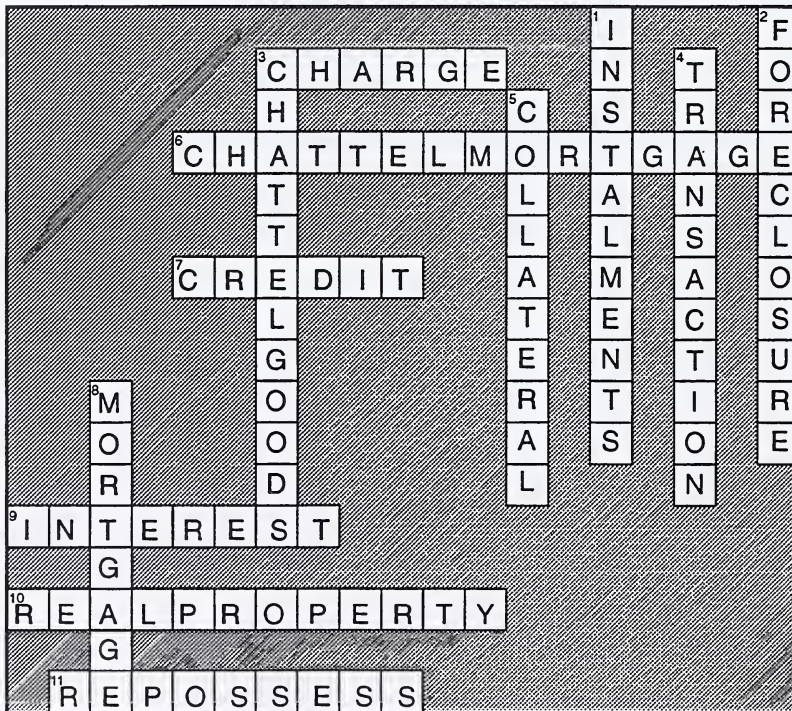
Types of purchases: May include such things as clothing, cosmetics, appliances, sporting goods, airline tickets, dining out, etc.

Identify any items you would not purchase using credit: May include such things as prescription drugs, inexpensive items (less than \$10), charity donations, etc.

Opinions about using credit: May include such things as enjoy using credit, think they overuse credit, think that credit is too easy or too difficult to obtain, etc.

3. Complete the following crossword puzzle.

The Role of Credit



Section 1 Assignment

15

1. Fill in the blanks with the most appropriate word or words on the following response page.
 - a. When we borrow money, goods, or services from either a financial institution or a business, *interest* is the fee paid.
 - b. One of the main reasons why people like to use credit is that it is simply *safer* and easier to use than cash.
 - c. *Instalments* are payments made according to a specified schedule to reduce or pay off an existing debt.
 - d. Purchases of large items such as homes, cottages, or land generally require a *mortgage* loan.
 - e. A *conditional sales* contract is drawn up if you are using an instalment account.
 - f. If an individual fails to make payments on an instalment loan, the seller can *repossess* the merchandise.
 - g. The lowest interest rates tend to be on *mortgage* loans.
 - h. The *regular credit* account provides an interest-free loan to the customer for a specified period of time, after which the account must be paid in full or it may be transferred to a *revolving credit account*.
 - i. The one kind of credit in which people generally do not need to borrow money to pay for is *service credit*.
 - j. When individuals use their credit cards to make a purchase, they are in fact using a *revolving credit* account.
 - k. Retail credit is limited to the purchase of *goods* and *services*.
 - l. As a rule the less secure a loan is, the higher the *interest rate* will be.
 - m. An *instalment account* loan requires that minimum monthly payments must be made with the approval and conditions set up by a loans officer.

3

2. Distinguish between a mortgage and a chattel mortgage. Give complete descriptions of each term.

People should not confuse a mortgage loan with a chattel mortgage. Mortgage loans are exclusive to credit purchases of residential property. A mortgage is considered to be a very secure loan, meaning that the lender can use his or her home as collateral in the event of the buyer defaulting. When this happens, the lender can go through foreclosure proceedings. Mortgages are a long-term instalment loan, except that the buyer has legal ownership of the property.

A chattel mortgage has nothing to do with the purchase of a home; it is simply a form of instalment loan where a specific chattel is used as collateral for the loan. Chattel mortgages are generally restricted to items that either have a serial number or a registration number that is easily identifiable, to make repossession much easier. Not all instalment loans are chattel mortgages, but all chattel mortgages are a form of instalment loan.

3

3. Explain how credit affects consumption and production. Be sure to include both positive and negative effects.

Credit generally encourages consumption, and it can be a very economical way for consumers to behave provided they have the knowledge, foresight, and ability to use credit wisely. If used properly, credit allows consumers to increase their standard of living, to take advantage of sales, and to keep their money in the bank (earning interest) until payments must be made. Sometimes credit is used beyond the means of certain consumers, businesses, and governments. When this happens, spending exceeds income, and debts either increase or become difficult to eliminate. From a production point of view, increased consumption translates into increased production, and ultimately more jobs for workers: this means greater profits at both the production and retail levels.

2

4. How does service credit differ from other forms of credit?

This form of credit is somewhat different than the other credit accounts we have examined. Consumable services include such things as gas, power, telephones, and cable television. Unlike most other forms of credit, people generally do not borrow money to pay for these services. However, they do use these services all month long prior to payment, so they are forms of credit. Because there are no goods involved, failure to pay for such services will result in the services being disconnected. In such cases, it is impossible to repossess a service.

4

5. Identify three advantages and one disadvantage of credit discussed in the study guide, and give a brief description of each.

Advantage A (Convenience): Consumers are discovering that it is simply safer and easier to use credit for both routine shopping and when making specialty (generally more expensive) purchases.

Advantage B (Emergencies): Consumers often have some peace of mind in knowing that unexpected emergencies, such as repairs to the car or to major appliances, can be made without draining the bank account. The financial burden becomes lower if these costs can be divided over time.

Advantage C (Forced Savings): Many consumers have a hard time saving to make a major purchase. These individuals usually find it easier to make the purchase using credit, and make the required payments.

Advantage D (Large Expenditures): These kinds of purchases include houses, cottages, and land which are simply too costly to pay for in cash.

Disadvantage A (Interest Costs): The privilege of buying something on credit, which means that you are in fact borrowing money from someone else, necessitates that you pay the lender a fee for the use of that money. This is known as interest.

Disadvantage B (Impulse Buying): Having access to credit sometimes gives people the illusion that they have more money at their disposal than they actually do have. People may run into difficulty handling the debts they incur if they are not able to control their impulse buying.

8

6. Write an essay on the following topic. Observe the rules of spelling, grammar, sentence structure, and paragraph construction in writing your essay. Begin with an introductory paragraph and end with a summary or concluding paragraph. Be sure to give your essay a title.

Assume that you are a loans specialist who has been asked to give a talk about the various types of credit and credit accounts available to today's consumers. Using both the student module notes and the textbook as references, provide an overview (summary) of this credit information. Your answer should include an explanation of the kinds of purchases best suited to each credit account.

The following is a summary of the information that could be included in this response. When marking, learning facilitators should use their discretion as to whether the answer is complete. Additional detail is available in the student module booklet.

Retail Credit

This type of credit is extended to consumers who wish to buy goods or services from different businesses. Large retail stores make up a large part of this market, although small local merchants certainly take advantage of this as well. The specific accounts are as follows:

- *Regular credit accounts (charge accounts): This is an account set up by the retailer to carry the consumer interest free for a specified period of time. Small chattel goods are generally best suited for this form of credit.*
- *Revolving credit accounts (credit cards): This type of credit is generally known to most people as "putting it on my credit card." Large retail stores often offer their own credit cards to their customers, but many consumers simply use the major credit cards offered by chartered banks. Small chattel goods are generally best suited to this form of credit.*
- *Instalment accounts (conditional sales contracts): In this case, a plan is made in the form of a conditional sales contract, where the repayment schedule is negotiated between the buyer and the seller. The time interval on these contracts is usually 12, 24, 36, or 60 months. A fixed amount is then paid each month for the specified number of months. Generally large credit purchases, such as a car, household furniture, or appliances, are best suited to this kind of account.*

Cash Credit

Cash credit, otherwise known as a cash loan, is the second main type of credit available to consumers; the individual borrows money from a financial institution to make desired purchases, or to help pay off existing debts. A loan agreement is formed which specifies such things as the duration of the loan, interest rates, and the monthly payments. One of the key benefits of cash credit is that it gives consumers the opportunity to obtain cash, generally at a lower interest rate than would be offered by a business or retailer, and then consumers can shop around for the best deal. The specific accounts are as follows:

- *Mortgage loans (residential property): Mortgage loans are exclusive to credit purchases of residential property. A mortgage is considered a very secure loan: the lender can use the home as collateral in the event of the buyer defaulting. If this were to occur, the bank or financial institution that is handling the mortgage could go through foreclosure proceedings. Mortgages are actually long-term instalment loans, the difference being that the buyer, not the bank, actually has legal ownership of the house.*
- *Instalment loans (major expenditures): Instalment loans are available to consumers from various financial institutions. A loans officer is responsible for the granting (or declining) of the loan, the terms and conditions of the loan, such as its duration, the total amount of the loan, monthly payments, and payment dates. Because this type of loan tends to be less secure than a mortgage (it may be more difficult to repossess the item), the interest rates are higher than they are for mortgages. Major purchases are generally best suited to this form of credit.*
- *Demand loans (short-term loans): Demand loans are designed to be short-term loans made by a financial institution to an individual. A demand loan is often used to bridge the gap between an individual needing to make a large expenditure, prior to receiving an expected sum of money. A demand loan is only granted if the loans officer thinks the prospective client is responsible and is highly likely to repay the loan. There is a variable interest rate on demand loans. Major purchases are generally best suited to this form of credit.*

Service Credit

Consumable services (telephones, gas): This form of credit is somewhat different than the other credit accounts. Consumable services include such things as gas, power, telephones, and cable television. Unlike most other forms of credit, people generally do not borrow money to pay for these services. They do, however, use these services all month long prior to payment, so consumable services are a form of credit. Because there are no goods involved, failure to pay for such services will result in the service being disconnected. In this case, it is impossible to repossess a service.

Section 2: The Sources and Cost of Credit

Key Concepts

- cost of credit
- sources of consumer credit
- computing costs of financing large purchases
- role of credit bureaus

The basic goals of this section are to ensure that students

- identify and compare sources of consumer credit
- discuss the factors that affect the cost of credit
- compare the costs of buying an item by cash or credit
- compute interest rates, dollar costs, and the total costs of financing a large purchase

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Divide the class into small groups and have them investigate one of the sources of credit. Make sure that each source is covered. If you have enough students, you may be able to have two groups per source, which would provide additional comparisons. A group report and/or a presentation could be done.
- Invite a loans officer or a representative from one of the chartered banks or consumer loan companies to speak to your class. Make sure that students have a basic understanding of credit prior to the guest speaker's arrival, so the students will be able to ask informed questions. Ask your guest if he or she can bring sample documents that the students can see and keep.
- Contact Consumer and Corporate Affairs (Alberta) to see what publications and videos they currently possess regarding the topics in this section. If you are in a major centre, this should not be a problem. If you live in a rural area, contact your nearest government office to see if they can assist you. It is possible that the Consumer and Corporate Affairs office in a city near you would be willing to deliver materials.

Section 2: Activity 1

1. List as many sources of credit as you can.

Sources of credit include the following:

- a. retail or service businesses (stores, restaurants, etc.)
- b. chartered banks
- c. trust companies
- d. credit unions (caisses populaires)
- e. consumer loan companies
- f. life insurance companies
- g. personal loans (e.g., from relatives)
- h. pawnbrokers
- i. money lenders

2. Name four department stores or chain stores that offer their own credit plans.

Four department stores or chain stores that offer their own credit plans include Eaton's, The Bay, Sears, and Canadian Tire Corporation.

3. What is the range of interest rates for credit plans that are offered by these stores?

The interest rate range is usually from 1.5 percent to 2.5 percent per month, which works out to anywhere between 18 and 30 percent per year.

4. Possession of a credit card offered by a particular store generally means there is instant approval to use it, except under what two circumstances?

Possession of a credit card usually means instant approval, except where the customer's account is in arrears (behind in the payments), or if the customer has exceeded his or her personal credit limit.

5. Explain what the universal credit-card plan is and how it works.

The universal credit-card plan permits the use of a number of different credit cards, Visa and Mastercard for example, in many places around the world. The card is presented for payment, run through a credit card machine, and then the details of the transaction are filled in by the clerk. When the merchant's copy of these credit card receipts is deposited at the bank, a portion of the amount is deducted from the total to pay the issuer of the credit card for the processing of the credit card sale.

6. What is the primary function of banks and trust companies?

The primary function of banks and trust companies is to lend money. This is because their main source of income is gained from the interest earned by lending this money.

7. Loans from banks and trust companies fall into three main categories. What are they?

Loans from banks and trust companies fall into the following three categories: mortgage loans, instalment loans, and demand loans.

8. What condition must exist before a credit union is able to issue dividends to its members?

The condition that must exist to permit a credit union to issue dividends is that its interest and share incomes must be greater than its combined interest expenses and other expenses.

9. What is a share account?

A share account is the member's equity in the credit union. A member must own at least one share in the company, with each share possessing a certain value. The total in an individual's share account is the basis for determining the amount of money the member may receive if dividends are issued.

10. What type of loans are offered by consumer loan companies?

Consumer loan companies offer instalment loans.

11. Do consumer loan companies have set interest rates? Explain.

Consumer loan companies do not have set interest rates. Their rates are dependent on the credit ratings of their prospective clients. Because many people who go to consumer loan companies are considered to be high credit risks, the approved loans tend to have higher interest rates than other lending institutions.

12. What is the name of the contract that is drawn up when you are entering into an instalment account loan?

A conditional sales contract is drawn up when you are entering into an instalment account loan.

13. Explain the life insurance company's policy regarding the payment of cash loans.

Life insurance companies will only issue cash loans to policyholders. These loans are deducted from the savings accumulated from the policyholders' premiums. In addition the cash loan may not exceed 95 percent of the policy's cash value.

14. Why do you think the interest rates charged by insurance companies tend to be lower than the interest rates charged by other financial institutions?

The interest rates charged by life insurance companies are lower than they are for other financial institutions because life insurance loans are restricted to policyholders who are essentially contributing to the fund: therefore the loans are secure. You are in fact borrowing your own money, and paying interest to do so. The insurance companies can therefore afford to be "generous."

15. Which source of credit is not classified as a financial institution?

Retail or service businesses are not financial institutions.

16. Why is it important to shop for credit?

It is important to shop for credit because not all lending institutions have the same kinds of credit plans and interest rates. Consumers should look for plans that are best suited to their needs.

17. Using a credit card reflects the use of which source of credit?

Using a credit card reflects the use of credit provided by retail or service businesses.

18. Distinguish between Schedule A banks and Schedule B banks.

Schedule A banks are chartered banks that service a whole range of people and businesses. These banks are characterized by having numerous different shareholders. Schedule B banks are also chartered banks, but tend to service large investments and loans, so they cater more to businesses. These banks are characterized by having fewer shareholders, so an individual or company can own a majority of the shares.

19. According to statistics given in your textbook, what was the average cost of a house in Canada in 1986 (not including interest)?

The average cost of a house in Canada in 1986 was \$82 000.

20. Trust companies differ from banks in two main ways. Describe these ways.

The two main ways in which trust companies differ from banks are that they are not regulated federally under the Bank Act, and they specifically offer services that pertain to administering estates and trusts.

21. What is the French name for credit unions?

The French name for credit unions is caisses populaires.

22. What is the main benefit of belonging to a credit union?

The main benefit of belonging to a credit union is that, as a member, you can receive dividends for any profits that have been made by the credit union during the year.

23. Why do consumer loan companies tend to have higher interest rates than banks and other financial institutions?

Consumer loan companies tend to have higher interest rates than other lending institutions because many loan company clients are considered high credit risks.

24. Give two examples of life insurance policies that have a cash-value feature.

Two examples of life insurance policies that have a cash-value feature are endowment policies and ordinary life insurance policies.

25. What should a person look for when shopping for credit?

The person who is shopping for credit should look for the credit products available, a convenient location, and courteous, friendly, efficient service.

Section 2: Activity 2

1. What is the function of a collection agency?

The function of a collection agency is to arrange a loan repayment plan with the borrower. Court action must sometimes be taken to obtain repayment.

2. The behaviour of consumers and their use of credit affects the costs we all pay. Do you agree or disagree with this statement? Explain.

Your answer should agree with the statement. The costs of credit, which we all pay for, are affected by consumers who either fail to pay their debts or pay their debts late. In effect reliable borrowers must pay for the expenses incurred by unreliable borrowers, who raise the costs of credit.

3. What is the benefit of having a loan which extends for a long period of time?

The benefit of a loan which extends for a long period of time is that the monthly payments tend to be lower than they would be for a short-term loan, and are therefore more manageable for the average consumer.

4. How does time influence the cost of credit?

Time influences the cost of credit because the longer the period of time, the greater the cost of borrowing due to interest.

5. What is the general rule regarding the amount of a loan and its effect on the cost of credit?

The general rule regarding the amount of money borrowed and its effect on the cost of credit is that the more the amount borrowed, the more it will cost you.

6. According to one of the business facts stated in Chapter 33 of your textbook, how much consumer credit is supplied by Canada's chartered banks?

Canada's chartered banks provide approximately two-thirds of all consumer credit in this country.

7. Name four things that affect the interest rate a person may be required to pay.

Four things that affect the interest rate a person may be required to pay include the following:

- *the state of the economy*
- *the current legislation*
- *the type of loan*
- *the credit history of the client*

8. Identify the seven business expenses that influence the cost of credit.

The seven business expenses that influence the cost of credit are

- *basic expenses*
- *credit checks*
- *collections*
- *uncollectables*
- *repossession costs*
- *interest costs*
- *records control*

9. The cost of credit is affected by four different factors. What are they?

The four factors that affect the cost of credit are

- *time*
- *amount*
- *interest rates*
- *business expenses*

Section 2: Activity 3

1. The columns marked *Interest* and *Principal* combine to equal which other column in the table?

They combine to equal the Blended Payment column.

2. What is happening to the amounts in the *Interest* column as more and more payments are made?

The amounts in the Interest column are declining.

3. What is happening to the amounts in the *Principal* column as more and more payments are made?

The amounts in the Principal column are increasing.

4. What is meant by the term *blended payment*?

A blended payment is a payment that combines the payment of interest and the reduction of principal.

5. Using the month of May, how much of the blended payment goes toward interest?

\$6.92 goes toward interest.

6. Again using the month of May, how much of the blended payment goes toward reducing the outstanding balance?

\$81.93 goes toward reducing the outstanding balance.

7. How is the outstanding balance arrived at each month?

The outstanding balance is determined by subtracting the principal reduction from each successive outstanding balance. An example is $\$1000 - \$78.66 = \$921.34$.

8. Using the calculation of annual interest formula, show the calculation that would take the initial outstanding balance of \$1000.00 down to its next balance of \$921.34. Write the standard formula first, and then show each successive step in your calculation.

The calculation is as follows:

$$\begin{aligned}
 \text{Amount of Interest} &= \frac{\text{Principal} \times \text{Rate} \times \text{No. of Days}}{365} \\
 &= \frac{\$1000 \times 0.12 \times 31}{365} \\
 &= \frac{3720}{365} \\
 &= \$10.19
 \end{aligned}$$

$$\begin{array}{rcl}
 \text{Monthly Payment} &= & \$88.85 \\
 & & \underline{-10.19} \quad \text{Interest Charge} \\
 & & 78.66 \quad \text{Principal Reduction}
 \end{array}$$

$$\begin{array}{rcl}
 \text{Outstanding Balance} &= & \$1000.00 \\
 & & \underline{-78.66} \quad \text{Principal Reduction} \\
 & & 921.34 \quad \text{Outstanding Balance}
 \end{array}$$

9. What conclusions can you draw about what is happening in this repayment schedule as each blended payment is made?

As each blended payment is made in this repayment schedule, portions of both the interest and principal are paid. As time goes on, more of the payment goes to reducing the principal and less goes toward paying interest.

10. What is the total amount of interest that Curtis will have to pay?

The total amount of interest that Curtis will have to pay is \$65.87.

11. What is the total repayment cost that Curtis will have to pay?

The total repayment cost that Curtis will have to pay is \$1065.87 (\$1000.00 + \$65.87).

12. Why is the last payment on the repayment schedule different from the rest of the payments?

The last payment on the repayment schedule is different from the rest of the payments because it is the amount needed to pay off the outstanding balance, plus the interest on that amount. If you paid the usual amount, you would be paying more than you actually owed.

13. How much will Helen's monthly payments be?

Helen's monthly payments will be \$77.20.

14. What is the total amount of interest that Helen will ultimately pay for this loan?

The amount of interest Helen will pay for this loan is \$126.40.

15. What is the total repayment cost that Helen will have to pay?

Helen's total repayment cost will be \$926.40 (\$800.00 + \$126.40 or 77.20×12).

16. Let's assume that Helen instead selected a television that cost \$1200. How much would her monthly payments be now?

Helen's monthly payments would be \$115.81.

17. How much will Derek's monthly payments be?

Derek's monthly payments will be \$609.40. The simplest procedure to determine this amount is to look up \$2400 and multiply by 10. Other procedures can be used which may vary the monthly payments by a few cents from \$609.40.

18. What is the total amount of interest that Derek will have to pay for this loan?

The total amount of interest Derek will pay is \$12 564. (This total may vary slightly depending on the method used in question 17.)

19. What is Derek's total repayment cost?

The total repayment cost will be \$36 564 (\$24 000 + \$12 564).

20. In order to determine the amounts for questions 17 through 19, what did you do differently than you did for Example 2?

The table only goes up to \$10 000, and the loan amount needed is \$24 000. A method has to be found to use the table to calculate the amounts for a \$24 000 loan. The easiest way is to look up \$2400 to find the appropriate numbers, and multiply by 10. Using other methods could vary the figures by a few cents.

21. Assume that Derek chose a new car that was going to cost him \$8400. What would his monthly payments be now?

Derek's monthly payments would now be \$213.30.

22. How much will Leonard's monthly payments be? What about Lisa's?

Leonard's monthly payments will be \$288.65. Lisa's will be \$83.87.

23. What is the total amount of interest that Leonard will have to pay for his loan? How about Lisa?

Leonard's total interest costs will be \$363.80. Lisa's will be \$1932.20.

24. What is Leonard's total repayment cost? What about Lisa's?

Leonard's total repayment cost will be \$3463.80. Lisa's will be \$5032.20.

25. What is the major advantage of Leonard's one-year loan?

The major advantage of Leonard's one-year loan is that he pays significantly less money in interest than Lisa.

26. What is the major disadvantage of Leonard's one-year loan?

The major disadvantage of Leonard's one-year loan is that he must make higher monthly payments.

27. What is the major advantage of Lisa's five-year loan?

The major advantage of Lisa's five-year loan is that she makes low monthly payments.

28. What is the major disadvantage of Lisa's five-year loan?

The major disadvantage of Lisa's five-year loan is that she pays significantly more interest than Leonard.

29. Based on your own financial state, which loan would you have selected? Why?

Answers will vary. Some of you may select the one-year loan because of the interest money you will save, and you have enough disposable income to afford the higher payments. Some of you may select the five-year loan because you do not have enough disposable income to pay the higher monthly payments. You may want to elaborate on your own financial situation.

Follow-up Activities

Extra Help

1. Turn to page 198 in the textbook and answer “Review Questions” 1 to 4, and 7. (Please answer only the first part of question 3.)

Textbook question 1:

The four main types of financial institutions in Canada are

- *chartered banks*
- *trust companies*
- *credit unions*
- *caisses populaires*

Note: *In your study guide we did not distinguish between credit unions and caisses populaires as they are very similar. You will also notice that the credit extended by stores, consumer loan companies, and life insurance companies, do not fit into the text’s definition of financial institution.*

Textbook question 2:

*The federal government, under the **Constitution Act of 1867**, is granted the authority to control all matters related to money and banking in Canada. The advantage of this is that Canada has a unified banking system common to all areas of the country.*

Textbook question 3 (first part only):

*The **Bank Act** is a federal statute (law) that gives chartered banks the legal authority to operate. It regulates their actions. This act is updated every 10 years.*

Textbook question 4:

The Bank of Canada is Canada’s central bank. Its main functions are to control Canada’s money supply, issue new paper money, and destroy worn paper money. It also acts as “the banker’s bank,” regulating the chartered banks. It is also the federal government’s bank.

Textbook question 7:

Credit unions and caisses populaires differ from banks and trust companies in that they are formed by a group of people who have common goals and interests, whereas banks and trust companies are owned by shareholders. Credit unions and caisses populaires are also restricted for use by members and their families, while bank and trust company services are available to the general public.

2. The cost of borrowing *money* is directly correlated to the period of *time* for which the money is to be borrowed. The *longer* the period of time, the higher the cost of borrowing that money. Often the *benefit* of borrowing over longer periods is that the monthly payments tend to be lower and, therefore, more manageable for the average consumer. *Shorter* time periods result in higher monthly payments, but the overall cost of borrowing is *reduced*.
3. The cost of borrowing money is also influenced by the *amount* of money being borrowed. Generally, the *greater* the amount of money being borrowed, the higher the cost of borrowing that money. Sometimes the benefit of borrowing more money (for example, a *mortgage* loan) is that the *interest* rate offered is lower than for shorter-term loans. It is important to note that each factor must be considered in conjunction with all other factors.
4. The third factor that affects the cost of credit is the *interest* rate charged. Interest rates are influenced by a number of different factors. The state of the *economy*, legislation, the type of *loan*, and the credit *history* and reliability of the client all play a part in the interest rate that a person may be required to pay. There is a difference in *rates* according to the institution from which the *loan* is obtained. Chartered banks tend to charge *more* than trust companies, and rates vary from one institution to another because of *the competition* for customers.
5. The costs of operating a business that offers credit are reflected in the interest costs that you will be required to pay. These business expenses include basic *expenses* (salaries, rent, electricity, etc.), *credit* checks (the time and effort needed to check the information provided in credit applications), *collections* (costs of getting some clients to pay), uncollectables (loans that are never collected), *repossession* costs (costs involved in trying to repossess goods), *interest* costs (on money that the business may need to borrow in order to lend to clients), and *records* control (keeping track of the status of account holders).
6. Using the formula for the calculation of annual interest, fill in the missing figures in the following chart. Note that you must express the percentage as a decimal number in your calculation. (For example, 22% would be expressed as 0.22.)

Loan Repayment Schedule

\$5000/12 Months/22%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$5000.00	Jan. (31)	\$467.97	\$ 93.42	\$374.55
4625.45	Feb. (28) (29 days in a Leap Year)	467.97	78.06	389.91
4235.54	Mar. (31)	467.97	79.14	388.83
3846.71	Apr. (30)	467.97	69.56	398.41

7. Using the given printed table, answer the following questions.

1.5 YEARS		18 MONTHS			28.00% NOMINAL	
NET AMT	INT FULL PERIOD	INIT 12 MOS INT	INIT 24 MOS INT	INIT 36 MOS INT	INIT 60 MOS INT	MONTHLY PAYMENT
100	23.66	20.44	0.0	0.0	0.0	6.87
200	47.14	40.90	0.0	0.0	0.0	13.73
300	70.80	61.34	0.0	0.0	0.0	20.60
400	94.46	81.78	0.0	0.0	0.0	27.47
500	118.12	102.22	0.0	0.0	0.0	34.34
600	141.60	122.68	0.0	0.0	0.0	41.20
700	165.26	143.12	0.0	0.0	0.0	48.07
800	188.92	163.56	0.0	0.0	0.0	54.94
900	212.58	184.00	0.0	0.0	0.0	61.81
1000	236.06	204.46	0.0	0.0	0.0	68.67
1100	259.72	224.90	0.0	0.0	0.0	75.54
1200	283.38	245.34	0.0	0.0	0.0	82.41
1300	306.86	265.79	0.0	0.0	0.0	89.27
1400	330.52	286.23	0.0	0.0	0.0	96.14
1500	354.18	306.67	0.0	0.0	0.0	103.01
1600	377.84	327.11	0.0	0.0	0.0	109.88
1700	401.32	347.57	0.0	0.0	0.0	116.74
1800	424.98	368.01	0.0	0.0	0.0	123.61
1900	448.64	388.45	0.0	0.0	0.0	130.48
2000	472.30	408.89	0.0	0.0	0.0	137.35
2100	495.78	429.35	0.0	0.0	0.0	144.21
2200	519.44	449.79	0.0	0.0	0.0	151.08
2300	543.10	470.23	0.0	0.0	0.0	157.95
2400	566.58	490.69	0.0	0.0	0.0	164.81
2500	590.24	511.13	0.0	0.0	0.0	171.68

a. What is the amortization period for this loan table?

The amortization period is 1.5 years.

b. What is the term of this loan table?

The term is 18 months.

c. What is the interest rate of this loan table?

The interest rate is 28%.

d. What would be the monthly payment on a \$1400 loan?

The monthly payment would be \$96.14.

e. What is the total interest on a \$2100 loan?

The total interest is \$495.78.

Enrichment

- Using the information provided in both this study guide and your text, fill in the following chart which depicts the characteristics of each of the six sources of credit discussed in Activity 1.

Note that credit offered by stores is omitted from this chart because stores really do not function in the same way as do these other institutions.

Sources of Credit

Chartered Banks	Trust Companies	Credit Unions (& Caisses Populaires)	Consumer Loan Companies	Life Insurance Companies
<i>Regulated by federal government</i>	<i>Regulated by both federal and provincial legislation</i>	<i>Regulated by Credit Union Act (provincial)</i>	<i>Regulated by both federal and provincial governments</i>	<i>Regulated by both federal and provincial governments</i>
<i>General public</i>	<i>General public</i>	<i>Members only</i>	<i>General public</i>	<i>Policyholders</i>
<i>Schedule A – many shareholders</i> <i>Schedule B – few shareholders</i>	<i>Member of CDIC</i>	<i>Have their own deposit protection</i>	<i>Mostly conditional sales contracts</i>	<i>Cash loans and mortgages</i>
<i>All banking services</i>	<i>All banking services</i>	<i>All banking services</i>	<i>Lending only</i>	<i>Insurance services – lending only to policyholders</i>
<i>Member of CDIC</i>	<i>Trustee services provided</i>	<i>Members share profits</i>		

This is a basic example of a completed chart. You may be more thorough in your answers.

2. Using the formula for the calculation of annual interest, complete the following loan repayment schedule.

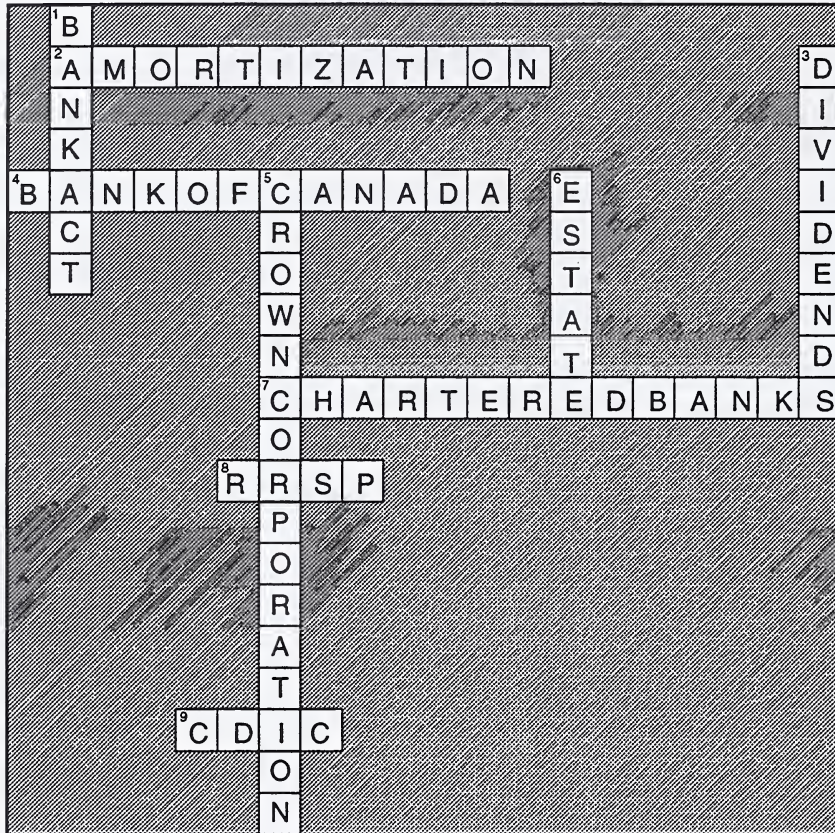
Loan Repayment Schedule

\$8000/12 Months/18%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$ 8000.00	Jan. (31)	\$ 733.44	\$ 122.30	\$ 611.14
7388.86	Feb. (28)	733.44	102.03	631.41
	(29 days in a Leap Year)	733.44	103.31	630.13
6757.45	Mar. (31)			
6127.32	Apr. (30)	733.44	90.65	642.79
5484.53	May (31)	733.44	83.85	649.59
4834.94	June (30)	733.44	71.53	661.91
4173.03	July (31)	733.44	63.80	669.64
3503.39	Aug. (31)	733.44	53.56	679.88
2823.51	Sept. (30)	733.44	41.77	691.67
2131.84	Oct. (31)	733.44	32.59	700.85
1430.99	Nov. (30)	733.44	21.17	712.27
718.72	Dec. (31)	729.71	10.99	718.72

3. Complete the following crossword puzzle.

Sources and Cost of Credit



Section 2 Assignment

6

1. Select the three sources of credit that correspond with each of the following statements and give a brief explanation as to who this credit source is best suited. In other words, under what circumstances would an individual select each credit source?
 - a. This credit source generally has the highest rate of interest on consumer loans.

Consumer loan companies: These generally have the highest interest rates because many of the clients they service are considered high credit risks. These may be people who have been unable to secure bank loans because of poor credit histories, or they may not yet have credit histories and need funds.

- b. This credit source is available only to its members or members' families. Its interest rates are comparable to the chartered banks.

***Credit unions (Caisses populaires):** These generally have a comparable rate of interest to the chartered banks. People who are members of a credit union would likely seek to obtain funds from the credit union, because of the added benefit of receiving dividends. This could lower their credit costs.*

- c. This credit source is governed by the *Bank Act*.

***Chartered banks:** These can be used by the general public and they do not require private membership. Their rates are competitive with similar institutions, but they also offer a wide variety of services. A loan from a chartered bank would best suit a client who is financially stable, with a good credit history.*

4

2. Identify four factors that affect the cost of credit which were discussed in your student module. Give an explanation for each factor.

***Time:** Credit costs are affected by time. The general rule is that the longer the period of time, the higher the cost of borrowing money. Longer time periods usually mean smaller monthly payments than shorter periods of time.*

***Amount:** The cost of credit is influenced by the amount of money being borrowed. The general rule is that the greater the amount of money, the higher the cost of borrowing. One exception is mortgages, due to low rates.*

***Interest Rates:** Interest rates also affect credit costs. Interest rates are influenced by legislation, the state of the economy, the type of loan, and the credit history of the client. Not all interest rates charged are the same.*

***Business Expenses:** The costs of operating a business are reflected in the interest rates individuals are charged. Business expenses include basic expenses, credit checks, collections, uncollectables, repossession costs, interest costs, and records control.*

5

3. a. Using the calculation of annual interest formula, complete the Loan Repayment Schedule. The information you need to complete the table is supplied on the following response page.

Loan Repayment Schedule

\$3000/12 Months/16%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$ 3000.00	Jan. (31)	\$ 272.19	\$ 40.77	\$ 231.42
2768.58	Feb. (28)	272.19	33.98	238.21
	(29 days in a Leap Year)			
2530.37	Mar. (31)	272.19	34.39	237.80
2292.57	Apr. (30)	272.19	30.15	242.04
2050.53	May (31)	272.19	27.86	244.33

- b. Based on the information arrived at in the Loan Repayment Schedule, what is the total amount of interest paid on this loan?

The total amount of interest is \$167.15.

5

4. Using the following printed table, answer the following questions:

1.0 YEARS	12 MONTHS			14.00% NOMINAL		
NET AMT	INT FULL PERIOD	INIT 12 MOS INT	INIT 24 MOS INT	INIT 36 MOS INT	INIT 60 MOS INT	MONTHLY PAYMENT
100	7.76	7.76	0.0	0.0	0.0	8.98
200	15.52	15.52	0.0	0.0	0.0	17.96
300	23.28	23.28	0.0	0.0	0.0	26.94
400	30.92	30.92	0.0	0.0	0.0	35.91
500	38.68	38.68	0.0	0.0	0.0	44.89
600	46.44	46.44	0.0	0.0	0.0	53.87
700	54.20	54.20	0.0	0.0	0.0	62.85
800	61.96	61.96	0.0	0.0	0.0	71.83
900	69.72	69.72	0.0	0.0	0.0	80.81
1000	77.48	77.48	0.0	0.0	0.0	89.79
1100	85.24	85.24	0.0	0.0	0.0	98.77
1200	92.88	92.88	0.0	0.0	0.0	107.74
1300	100.64	100.64	0.0	0.0	0.0	116.72
1400	108.40	108.40	0.0	0.0	0.0	125.70
1500	116.16	116.16	0.0	0.0	0.0	134.68
1600	123.92	123.92	0.0	0.0	0.0	143.66
1700	131.68	131.68	0.0	0.0	0.0	152.64
1800	139.44	139.44	0.0	0.0	0.0	161.62
1900	147.20	147.20	0.0	0.0	0.0	170.60
2000	154.84	154.84	0.0	0.0	0.0	179.57
2100	162.60	162.60	0.0	0.0	0.0	188.55
2200	170.36	170.36	0.0	0.0	0.0	197.53
2300	178.12	178.12	0.0	0.0	0.0	206.51
2400	185.88	185.88	0.0	0.0	0.0	215.49
2500	193.64	193.64	0.0	0.0	0.0	224.47
2600	201.40	201.40	0.0	0.0	0.0	233.45
2700	209.16	209.16	0.0	0.0	0.0	242.43
2800	216.80	216.80	0.0	0.0	0.0	251.40
2900	224.56	224.56	0.0	0.0	0.0	260.38
3000	232.32	232.32	0.0	0.0	0.0	269.36
3100	240.08	240.08	0.0	0.0	0.0	278.34
3200	247.84	247.84	0.0	0.0	0.0	287.32
3300	255.60	255.60	0.0	0.0	0.0	296.30
3400	263.36	263.36	0.0	0.0	0.0	305.28
3500	271.00	271.00	0.0	0.0	0.0	314.25

- a. What is the term on this loan schedule?

The term is 12 months.

- b. What is the amortization period on this loan schedule?

The amortization period is one year.

- c. What is the monthly payment on a \$1600 loan?

The monthly payment is \$143.66.

- d. What is the total interest paid on a \$2700 loan?

The total interest is \$209.16.

- e. What is the total repayment cost on a \$3100 loan?

The total repayment cost is \$3340.08.

10

5. Define and/or explain the following terms:

a. Bank of Canada

The Bank of Canada is run by the federal government, which governs both the chartered banks and Canada's money supply.

b. Canada Deposit Insurance Corporation

This company, often referred to as CDIC, guarantees investments in chartered banks up to a maximum of \$60 000 per investor. The maximum guarantee is \$120 000 if RRSPs are involved.

c. Chartered Bank

A chartered bank is granted the right to conduct business by the federal government.

d. Dividend

These shareholder payments are a share of the company's profits.

e. Trust

Trust is an item like money and property that is held on behalf of a beneficiary to a will until such time as the beneficiary has legal possession and control of it.

Section 3: The Use and Misuse of Credit

Key Concepts

- personal use of credit guidelines
- credit rating
- methods used to secure credit
- misuse of credit
- credit problems
- bankruptcy

The basic goals of this section are to ensure that students

- outline various guidelines concerning the personal use of credit
- describe the factors which constitute a credit rating and the methods used to secure credit
- identify the ways in which credit is misused
- outline various alternatives for solving credit problems
- identify conditions that warrant bankruptcy and describe the process of declaring personal bankruptcy

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- **Role-playing.** For this activity, obtain a set of consumer loan application forms. Have the students work in groups of two, with one being the loans officer, and the other the applicant. To aid in the interview process, have the loans officer actually fill out the form by asking the necessary questions. Students should provide true basic information, such as their names and addresses, but they can make up information about such things as the assets they own. Give students some reasonable limits so that not everyone owns a yacht or private jet. A variation could be that a couple or family are applying for the loan. You can be as structured or as flexible as you wish. For example, you may tell everyone that they are applying for the same amount or for the same item. Have all of the loans officers become applicants, and vice versa. In each situation, the loans officer should decide whether or not he or she would grant the loan, and explain why or why not.
- As a follow-up to the previous activity, students can discuss what it was like to be a loans officer and an applicant.
- Invite a counsellor from a financial consulting company, or from Alberta Consumer and Corporate Affairs, to speak to your class. The reality of listening to someone who has to deal with credit and lending concerns on a daily basis could prove to be very interesting. As a follow-up, students may be asked to write a report based on the presentation.
- Audiovisual materials are available from Alberta Consumer and Corporate Affairs. You may wish to contact the nearest branch to find out what they have on hand. They also have printed materials called "Tip Sheets" that address some of the topics covered in this section. You may wish to obtain these to assist students in making up their own Consumer Credit Manual.

Section 3: Activity 1

1. What two key steps are necessary for selecting your credit purchases carefully?

The two key points are

- *setting priorities*
- *developing an attitude that protects you from impulse buying*

2. When analysing your financial commitments, what must you determine?

You must determine what your monthly payment limit is. This means identifying all of your monthly expenses, including those you pay cash for, as well as any existing credit obligations.

3. Assuming that you live on your own and have no existing loans, what typical expenses would you have?

Some typical expenses would be

- *rent*
- *transportation*
- *food*
- *clothing*
- *insurance*
- *utilities*
- *miscellaneous incidentals*
- *recreation*

4. Why is it important to shop for credit?

It is important to shop for credit because not all financial institutions have the same interest charges. You may end up paying too much if you do not shop around.

5. Should you sign a credit contract if there is something in the contract that you do not understand? If not, what should you do?

No. If there is something in the contract that you do not understand, you should ask the lender to explain it thoroughly.

6. What do you think will likely happen if you fail to make your credit payments on time without notifying your creditors?

You will likely be charged a penalty if you fail to pay your creditors on time without first notifying them.

7. What two alternatives are mentioned about what can be done if a borrower is unable to make a payment on time?

The following are two alternatives if a borrower is unable to pay on time:

- *The lender may extend the loan repayment period.*
- *The lender may renegotiate the terms of the loan to make the monthly payments more manageable.*

8. Why is saving for the future considered to be a guideline for using credit wisely?

Saving for the future is considered to be a guideline because it allows you to use credit less frequently, and can help with the purchase of large items because a greater downpayment can be made, thus lowering the overall cost of credit.

9. Using the following loan application form, fill in all relevant parts.

You should have completed the following form. Answers will vary with each student.

10. What is the function of a credit bureau?

The function of a credit bureau is to keep records on all the borrowers in a certain area. The credit bureau then supplies this information to potential creditors on request.

11. How do credit bureaus make money?

Credit bureaus make money by charging membership fees to financial institutions and other organizations who wish to subscribe to the bureau. A subsequent user fee is charged each time the service is used.

12. Is it possible to contact your local credit bureau and read your file?

Yes. Individuals have the right to contact their local credit bureau and make arrangements to read their own file. This should be done periodically to ensure that correct information is contained in your file.

13. What does the term *character* mean in this context?

In this context character means financial personality.

14. List four questions the lender will want to ask regarding the applicant.

Four possible questions the lender will want to ask are listed:

- *Is the applicant capable of keeping a regular job?*
- *Does the applicant have any particular job skills?*
- *How long has the applicant lived at his or her current address?*
- *Does the applicant have a bank account?*

Other similar questions are acceptable responses.

15. What is meant by *capacity* in this context?

Capacity in this context refers to your financial ability to pay debts.

16. Why is capacity considered to be the most important component in establishing a credit rating?

Capacity is considered the most important component in establishing a credit rating because you must have the resources to pay a debt before credit can be extended.

17. What is the role of a co-signer?

The role of a co-signer is to help secure a loan for someone else, and to make good on the loan if the borrower fails to pay.

18. Name five major assets that would be considered in determining a person's capital.

Major assets could be the following:

- *home*
- *furniture*
- *car*
- *investments*
- *savings*
- *stereo*
- *silverware*
- *piano*

19. List two advantages of having a strong capital position.

Two key advantages in having a strong capital position are the following:

- *It is considered a possible source of repayment should something happen to the borrower's income.*
- *The borrower is considered to be a good manager of money and, therefore, less of a risk.*

Section 3: Activity 2

1. Indicate which of the following factors regarding the misuse of credit corresponds to the appropriate statement.

- (1) failing to select credit purchases carefully
- (2) failing to analyse your financial commitments
- (3) failing to shop for credit
- (4) failing to pay on time
- (5) failing to save for the future

Place the number of the misused credit guideline in the blank to the left of each statement.

- 4 a. "My payment was due on the 15th of this month, but I did not get around to paying it until the end of the month."
- 2 b. "Richard and I figured out that we can just afford that new car, but we are in big trouble if some other expense comes our way."
- 1 c. "When I go shopping, I just take my credit card and buy whatever I think I need."
- 5 d. "I keep buying things on credit, and then I pay for them later. I have never been able to save, therefore it is worth paying a few dollars in interest."
- 3 e. "I bought a washer and dryer the other day at Spend-E-Z Appliances. They were so helpful, and I got financing right then and there. That sure saved me time!"

2. What is debt consolidation?

Debt consolidation is the process of paying off all debts with one loan, therefore requiring only one loan payment per month. The loan is set up so that the loan payment is more manageable.

3. At what point should the troubled credit user consider debt consolidation?

Debt consolidation is usually the first step a troubled credit user should implement when he or she cannot meet all financial commitments. This is actually a matter of opinion: perhaps financial counselling should be the first step.

4. There are two routes to take for financial counselling. What are they?

Financial consultants and Alberta Consumer and Corporate Affairs are the routes to use for financial counselling.

5. Name four main sections that should be completed in the Budget Planner.

Four sections that should be completed in the Budget Planner are

- *Income*
- *Monthly living expenses*
- *Monthly credit expenses*
- *Monthly utilities*

Other sections can also be selected by looking at the Budget Planner form shown in the study guide.

6. Why is financial counselling beneficial?

Financial counselling is beneficial because it gives an unbiased third party the opportunity to help someone else reorganize the way in which they handle their finances. It may also act as an extra incentive for the troubled credit user to make more of an effort to follow a financial plan.

7. At what point should a person consider filing for personal bankruptcy?

Personal bankruptcy should be considered only as a last resort for solving credit problems.

8. List the five steps in the bankruptcy process.

The five steps in the bankruptcy process are

- *decision to file for bankruptcy*
- *legally declare bankruptcy*
- *meet with the official receiver*
- *meet with creditors*
- *make application for discharge*

9. Explain what is meant by an absolute discharge.

An absolute discharge is a court order declaring that all debts incurred before the bankruptcy are terminated, except for those things outlined in Section 178 of the Bankruptcy Act.

10. After filing for bankruptcy, when must the bankrupt individual meet with creditors?

The individual must meet with his or her creditors within 21 days.

11. At what point is the declaration of bankruptcy considered to be legal?

The declaration of bankruptcy is considered legal when the trustee files the necessary documents with the official receiver.

Follow-up Activities

Extra Help

1. The first step in using credit sensibly is to decide what *goods* and services you really need. You must set *priorities*. Secondly, you need to develop an attitude that protects you from *impulse* buying. Learning to resist purchasing what is not necessary is perhaps the most crucial point in successfully managing *credit*. This does not mean that every purchase you make has to be *analysed*, but it does mean closer scrutiny is warranted if you do not have the money to pay for it.
2. Before making credit purchases, especially *large* credit purchases, you should take a closer look at your financial position. Identify all of your monthly *expenses*, including those you pay cash for, as well as any existing credit obligations. The most important thing you must determine is, “what is my monthly payment *limit*.” Once you have determined this, you cannot go *over* it. You cannot spend what you do not have. Be careful not to overextend yourself so that if *emergencies* or unexpected expenses arise you have nothing left to handle them.
3. Just as you shop for the right pair of shoes, or the perfect leather jacket, you must shop for the right form of *credit*. You have already learned about the different types of credit, credit *accounts*, and sources of credit; but when the time comes, you must *compare*. Try not to jump at the most *convenient* financing that comes your way, without first investigating reasonable alternatives. Remember that you should never enter into a credit contract without fully understanding its *conditions* and terms.

4. Credit costs *money*. Credit costs even more money when it is paid late! If you are entering into a credit contract, do not pay any more than you have to. If you pay late, you will be assessed *penalties*, and these can be very costly. Maximize the use of your money by leaving it in the *bank* until it is time to pay. If you run into trouble and cannot meet your credit obligations, notify your *creditor* immediately so that an alternative arrangement can be made.
5. This may sound out of place, but it is critical to save for the future to avoid being at the mercy of the *credit* crunch. The best way to limit your need for credit is to create *savings*. In this way more purchases can be made with *cash*, and major credit purchases can at least be assisted with larger *down payments*. Try to balance “buy now, pay later” with “buy now, pay *now*!”
6. Turn to page 480 in the textbook and answer “Review Questions” 4 to 12.

Textbook question 4:

Five items that must be stated on a credit application form are

- *name*
- *address*
- *income*
- *occupation*
- *purpose of the loan*

Textbook question 5:

The three C's of credit are

- *character*
- *capacity*
- *capital*

Textbook question 6:

In evaluating character, the lender needs to know the following:

- *Are they able to hold down a regular job?*
- *What is their reliability on the job?*
- *Do they have specific job skills?*
- *Are they willing and able to accept responsibility?*
- *Do they have a stable home address?*
- *Do they have addresses of previous residences?*
- *Does the applicant have any bank accounts?*

Textbook question 7:

If the loans officer is able to determine that the applicant has enough disposable income to cover the cost of the loan, then the officer may accept the applicant. If not, the loan will likely be declined.

Textbook question 8:

Items that reflect person capital are such things as a house, car, savings, investments, furniture, and appliances.

Textbook question 9:

A borrower should protect a good credit rating because if it is damaged due to negligence (such as a failure to pay), then future credit may be denied. A damaged credit rating takes time to repair.

Textbook question 10:

If a borrower is unable to make a payment, he or she should immediately contact the creditor and explain the situation. The creditor may be able to assist the borrower by either extending the repayment period of the loan, or the loan terms may be renegotiated so that payments are more manageable for the borrower.

Textbook question 11:

The purpose of a credit bureau is to keep records on the credit histories of local residents. This information is then supplied to the members, such as banks and credit unions, for a fee.

Textbook question 12:

People should check their own credit bureau files to ensure they are up-to-date and accurate. Errors occur due to the large number of records that are handled.

7. Indicate T for true and F for false in each of the following statements:

 T a. Many people overbuy because they do not set priorities.

 F b. Impulse buying has nothing to do with selecting credit purchases carefully.

 F c. Before making any purchases using credit you must first determine your monthly payment limit.

 T d. Failing to analyse financial commitments explains why some people get into difficulty when unexpected expenses arise.

 F e. The best way to avoid the credit crunch is to make only small credit purchases.

- F f. Paying a debt late does not affect the cost of credit.
- T g. It is wise to shop around for credit, otherwise you would not know if you could have found better financing.
- F h. Free financial counselling can be obtained from a financial-consulting company.
- T i. Declaring personal bankruptcy should be considered only as a last resort to solving credit problems.
- F j. Increasing the number of payments you have to make each month is known as debt consolidation.

Enrichment

1. Redesign the Bankruptcy Process chart shown in Activity 2 so that a brief summary of what each step entails is included. Try to make the chart fit on one page. Words on the chart should be typed or printed neatly. Use the remainder of this page to plan your design, and the following page to display your chart and summary. You may need additional paper to do this.

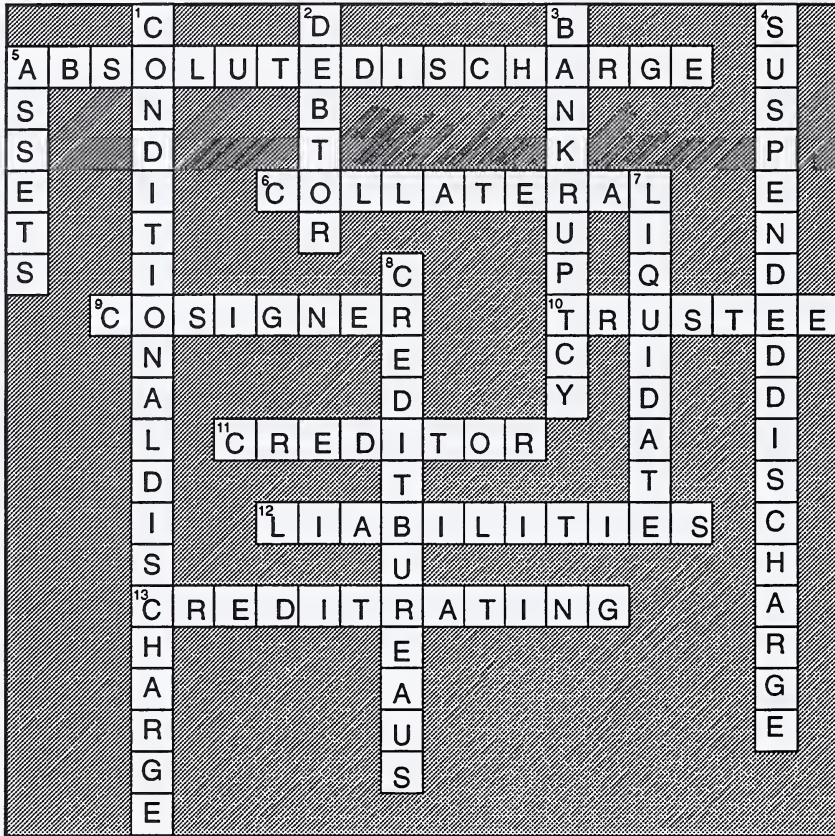
This is just one example of how you may have redesigned the bankruptcy process chart to include a summary. It should be neat, and it should be logical in its design.

Bankruptcy Process and Summary Designed by

- a. *Decision to File for Bankruptcy*
 - *contact trustee*
 - *supply all pertinent financial records*
- b. *Legally Declare Bankruptcy*
 - *trustee files documents with official receiver*
 - *if creditors call, direct them to your trustee*
- c. *Meet with Official Receiver*
 - *usually occurs within 21 days*
 - *you are examined under oath*
- d. *Meet with Creditors*
 - *usually occurs within 21 days*
 - *you must be in attendance*
- e. *Application for Discharge*
 - *the trustee will make application within one year*
 - *you may receive an absolute, conditional, or suspended discharge*

2. Complete the following crossword puzzle.

The Use and Misuse of Credit



Section 3 Assignment

15

1. Fill in the blanks with the most appropriate word or words on the following response page.
 - a. An *absolute discharge* means that all debts incurred before the declaration of bankruptcy are terminated, except for those specified in Section 178 of the *Bankruptcy Act*.
 - b. The process of paying off all debts with one loan is known as *debt consolidation*.
 - c. Analysing your financial commitments requires that their *monthly payment* limit be determined.
 - d. Sometimes it is necessary to *liquidate* assets in order to pay off debts.

- e. The first step in obtaining credit requires that the individual fill out a *loan application*.
- f. The Department of *Consumer and Corporate Affairs (Alberta)* supplies free counselling services for people who are having financial problems.
- g. When selecting credit purchases carefully, the consumer is less likely to resort to *impulse* buying.
- h. Assets are often used as *collateral* when a person is trying to obtain a loan.
- i. One form of securing credit is by having a *co-signer (or guarantor)*, which means that this person will make payments on the loan if the original borrower fails to.
- j. The last resort when solving credit problems is for an individual to file for *bankruptcy*.
- k. *Capital* is the term used to describe someone's financial position or worth.
- l. Most financial institutions rely on *credit bureaus* to supply information about the credit history of a potential client.
- m. *Creditors* are people to whom you owe money.
- n. An application for discharge is usually made within *one year* of declaring for bankruptcy.
- o. In order to avoid the credit crunch, it is necessary to *save* money.

2

2. Why is saving for the future considered to be a guideline for using credit wisely?

Saving for the future is considered to be a guideline because it allows you to use credit less frequently, and can help with the purchase of large items because a larger down payment can be made, thus lowering the overall cost of credit.

2

3. What are the two key advantages of having a strong capital position?

Two key advantages to having a strong capital position are: it is considered as a possible source of repayment should something happen to the borrower's income; and the borrower is considered to be a good money manager and therefore less of a risk.

2

4. In a bankruptcy case, outline the difference between an absolute discharge and a conditional discharge.

An absolute discharge is a court order declaring that all debts previous to the bankruptcy are terminated, except for those items outlined in section 178 of the Bankruptcy Act. A conditional discharge is similar, except that the discharge does not become final until certain conditions have been met.

2

5. Why is financial counselling beneficial?

Financial counselling is beneficial because it allows an unbiased third party the opportunity to help people reorganize the ways in which they handle their finances. It may also act as an extra incentive for troubled credit users to make more of an effort to follow a financial plan.

2

6. List four guidelines for using credit wisely.

- *Select credit purchases carefully.*
- *Analyse your financial commitments.*
- *Shop for credit.*
- *Pay on time.*
- *Save for the future.*

10

7. John Hillyer is having financial difficulties. He is just now realizing that he cannot keep up with all of his accumulated debts. He does not know what to do, nor has he any idea about what are his alternatives. You have a background in this area and will be able to advise him of his alternatives, and why he might choose one alternative over another.

In an essay discuss three alternatives that John has available to him.

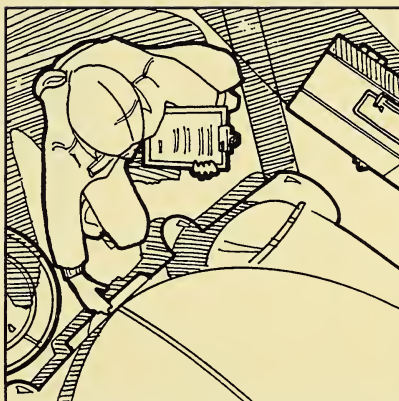
The first step that John Hillyer should be advised to take is to immediately contact his creditors. He may find that he can extend his repayment periods, or his creditors may be willing to renegotiate his loan agreements. After that, John should be advised that there are essentially three alternatives available to him. The first is debt consolidation. John would be advised to follow this option if he felt that his finances were not too unmanageable. He would pay out all of his debts and arrange to make one payment to the financial institution that handles his loan.

John would be advised of his second alternative, to get financial counselling, if he really felt that his finances were out of control. He may need the objective opinion of a counsellor to establish better financial management. He would have to contact either a financial consulting company or the provincial department of Consumer and Corporate Affairs.

John should be advised that filing for bankruptcy is a last resort. His situation must warrant such action, and he should seek the advice of a lawyer and a trustee. He should be aware that he stands to lose certain assets, and that his finances would be in the legal control of a third party.

BASIC BUSINESS 20

Module 3: Insurance



LEARNING FACILITATOR'S MANUAL



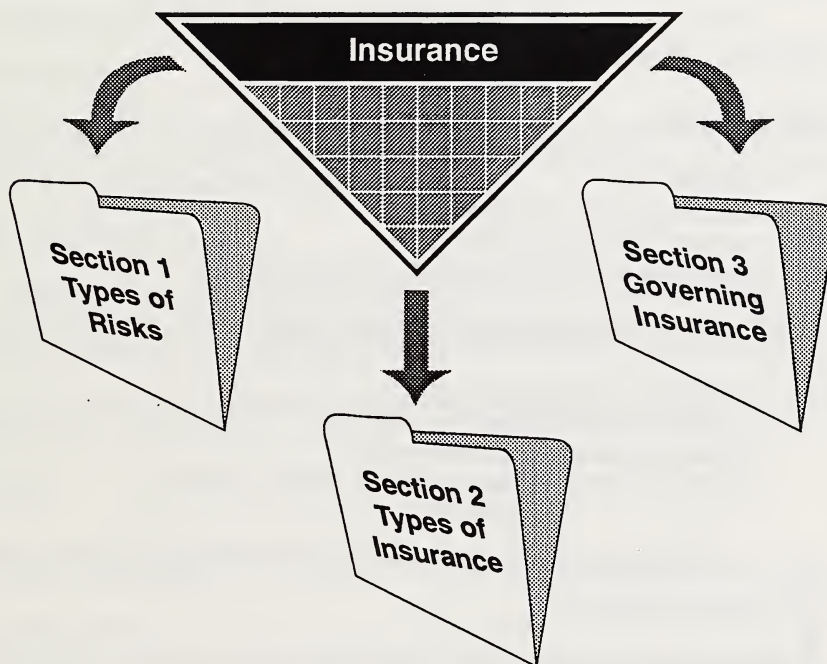
Alberta
EDUCATION

Module 3: Insurance – Overview

Every day, people of all ages face different risks. One way of reducing risks is by purchasing insurance.

In this module the student will be introduced to the types of insurance available, the governing of insurance in our society, and careers in insurance.

The Insurance module is graphically presented below.



Evaluation

The evaluation of this module will be based on three assignments:

Section 1 Assignment	30 %
Section 2 Assignment	40 %
Section 3 Assignment	30 %
TOTAL	100 %

Teaching Suggestions

The following are suggested possibilities for beginning this module:

- Discuss the importance and benefits of insurance in our society.
- Explain the types of risks which are insurable.
- Explain the different types of insurance for personal use.
- Provide an introduction to careers in insurance.
- Provide guest speakers from the business and legal communities to discuss insurance needs.

Section 1: Types of Risks

Key Concepts

- **insurable risks**
- **determination of costs of insurance**
- **insurance policy as a contract**
- **exploration of the roles of people in the insurance field**

The basic goals of this section are to ensure that students

- identify some risks which are insurable
- explain how costs of insurance are determined
- describe the insurance policy as a contract
- recognize the roles of the agent, appraiser, adjuster, and actuary

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Prepare a bulletin board display of risks frequently encountered during daily activities.
- Prepare a chart illustrating the different types of insurance available for personal needs.
- Explain the differences of life insurance policies available to meet consumer needs.
- Discuss the risk factors which determine the premiums for different insurance policies.

Section 1: Activity 1

1. Going to purchase groceries at a store may entail some risks. What risks may be encountered while either walking or driving to the store, or while at the store?

Risks you might experience while going to buy groceries at a store include

- *injury by a motorist*
- *injury by a cyclist*
- *damage to your vehicle (if driving)*
- *injury by a criminal*
- *being the victim of a robbery in the store*

2. Turn to pages 492 and 493 in the textbook and answer “Review Questions” 3 and 4.

Textbook question 3:

Sharing economic risks means that people with common risks or problems may pool their money or resources to reduce the amount of individual risk. This sharing does not completely eliminate the risk, but it does spread the loss to a larger number of people.

Textbook question 4:

By purchasing insurance many people regularly contribute sums of money to a fund that protects them against possible risks. If a risk occurs the fund pays money to the person who suffers the loss or damage. If a risk does not occur the fund keeps the money until loss or damage occurs.

3. From the following incidents that you might experience during a typical day, list some ways to reduce the seriousness of each incident.

Incidents

Ways to Reduce Seriousness

Example: Car accident

Wear seat belt; drive slower

a. Bicycle accident

Wear a helmet; obey traffic laws; ride defensively.

b. Waterskiing

Wear a life preserver; obey navigational laws; exercise caution.

c. Taking a bus ride

Hold on to the bus seat or a wall strap; obey transit regulations; watch for traffic when getting off the bus.

d. Doing a science experiment at school

Follow your teacher's instructions; exercise caution; wear safety goggles.

e. Participating in a gymnasium activity

Follow your instructor's advice; wear safety equipment; follow the school or gym regulations; exercise caution; make sure the landing pads are correctly positioned.

Section 1: Activity 2

1. List three reasons why an automobile-insurance premium for a 16-year-old student driver would be very high.

An automobile insurance premium for a 16-year-old student driver could be expensive due to the following reasons:

- *The student has a poor driving record.*
- *The student did not take a driver-training course.*
- *The vehicle is expensive, high powered, or expensive to repair.*
- *The vehicle has high mileage.*
- *The student drives to school and work.*

2. Complete the following sentences:

- a. The person who sells insurance is called the *insurance agent*.
- b. The payment made to an insurance company is called the *premium*.
- c. The possibility of a loss is called the *risk*.
- d. A system of protection against loss is called *insurance*.
- e. The person who calculates risks is called an *actuary*.
- f. The contract between you and an insurance company is called the *policy*.
- g. The person who has insurance protection is called the *policyholder or insured*.

Section 1: Activity 3

1. Indicate whether claims would be paid out by an insurance company in the following situations. Answer **yes** or **no** in the space provided to the right of each statement.

- a. Providing false information on the insurance application. No
- b. Driving a motor vehicle while your licence is suspended. No
- c. Damaging a motorcycle due to racing it on a highway. No
- d. A house was destroyed by lightning. Yes
- e. Driving a motor vehicle while intoxicated, causing a pedestrian injury. No

- f. A premium was not paid by the due date. No
- g. A house was damaged by fire as the result of careless smoking. Yes
- h. The theft of a stereo unit from a house that was not locked. Yes
2. If you had automobile insurance on a 1984 car, what would you need to do if you traded it in for a new model and wished to maintain the insurance?

You would need to register the new vehicle with the Bureau of Motor Vehicles. You would also need to contact your insurance company to obtain coverage for the new vehicle. From the date of purchase, you have 14 days to register the vehicle and buy insurance. Your insurance company will send you the pink slip for the new motor vehicle.

3. List some determining factors as to whether an insurance company will indemnify the policyholder.

Some of the factors that determine if an insurance company will indemnify a policyholder include whether

- the policyholder has coverage on the property lost, stolen, or damaged*
- the policyholder lied or committed fraud when giving information to the insurance company*
- the policyholder committed an illegal act to obtain money from the insurance company*
- the policyholder notified or contacted the insurance company within a reasonable period of time after the incident happened*

Follow-up Activities

Extra Help

1. Turn to page 493 in the textbook and answer questions 1, 3, 5, and 8 of “Applying Your Knowledge.”

Textbook question 1:

A business might experience these economic losses:

- the partial or total destruction of the business from fire or flood*
- theft or vandalism*
- legal action taken by a customer injured on the premises*
- losses caused by civil disorder or war*
- losses caused by “acts of God.”*

Textbook question 3:

No. Although your own life may be well organized, you cannot necessarily plan for what other people may do. Most losses are caused by factors that cannot always be anticipated in advance.

Textbook question 5:

A professional football quarterback might want to insure his passing arm because it is considered his "bread and butter." A passing arm is not a common risk and, as a result, the quarterback would likely have to pay a high insurance premium since there are not many people who can pool their resources to share this risk.

Textbook question 8:

Yes. A businessperson does have an insurable interest in his or her partner's life since the business might fail without this partner. There is therefore a direct risk of financial loss in the event of a partner's death or serious injury.

2. Imagine that you are travelling in a car with your friend to a sporting event. List five risks that you might experience from the time you leave your home until you return from the sporting event.

Risks you may experience to, from, and at a sports event may include

- *being injured by a motorist or cyclist*
- *an assault by a pedestrian*
- *damage to your motor vehicle by another motorist's vehicle*
- *a heart attack*
- *fainting*
- *being injured by other people at the sporting event*
- *being injured by a player at the event*
- *being the victim of a criminal act*
- *being a victim of a mob scene or riot*
- *the theft of your property*

Enrichment

1. Go to an insurance agency in your area and ask an insurance agent what it would cost you to insure a motor vehicle. You must supply the agent with the make, model, and year of the vehicle. Record the information in the space provided.

Some possible answers are the following:

- a. Your age

- b. Year, make, and model of the vehicle 1989 Ford Taurus
- c. Cost of the premium Amount varies
- d. Risk factors given by the agent

Some possible risk factors are

- *Your age*
- *Where you live*
- *Type of coverage*
- *Your driving record*
- *Whether you smoke*

2. Contact a travel agent in your area, or flight insurance personnel, or an airline sales representative at your local airport. Find out how much flight insurance to Toronto will cost. This activity asks for the following information.

Some possible answers are the following:

- a. Distance (in kilometres) from the airport closest to you to Toronto 3000 kilometres
- b. Your age 16
- c. Name of your beneficiary and his or her relationship to you Jennifer, daughter
- d. Cost of the flight insurance It varies.
3. Indicate which of the following statements might be insurable by writing in the words *Insurable* or *Not insurable* to the right of each statement in the space provided.
- a. Damage to your house from a hailstorm Insurable
- b. Damage to your car from lightning Insurable
- c. An injury to your friend's dog Insurable
- d. The death of a parent Insurable
- e. The loss of jewellery due to theft Insurable
- f. A loss of employment due to a motor-vehicle accident Insurable
- g. A crop destroyed by severe rainstorms Insurable

- h. An injury to your family doctor

Not insurable unless you have an insurable interest in the doctor's life; for example, you suffer from a rare complaint for which your doctor provides specialized treatment which no one else can provide.

- i. Failing a course at school

Not insurable

- j. Obtaining a divorce from your spouse

Insurable

- k. The loss of stocks and bonds in a safe deposit box due to a fire

Not insurable

- l. An injury to a prized animal

Insurable

4. If you purchased a used 1988 automobile from XYZ Motor Sales in Grande Prairie, what risk factors might the insurance company consider when determining your premium? Indicate at least three risk factors.

Risk factors that the insurance company might consider when determining your premium include the following:

- *age of the vehicle*
- *the number of accidents your make of vehicle has been in*
- *age of the insured*
- *gender of the insured*
- *the vehicle's location*
- *the local accident rate*
- *the insured's driving record*
- *whether the insured is under legal age*
- *whether the insured took a driver-training course*

5. Turn to page 494 in the textbook and answer question 10 of "Applying Your Knowledge."

Textbook question 10:

Insurance companies hope to aid in the reduction and seriousness of accidents. If fewer and less serious accidents result, insurance companies will have to pay out fewer dollars in benefits to their policyholders.

Section 1 Assignment

5

1. Define the following terms:

- a. Policy: *A policy is an agreement (contract) between the insured and the insurance company.*
- b. Insurance: *Insurance is a means of protection against loss.*
- c. Premium: *A premium is a sum of money paid to an insurance company for insurance protection.*
- d. Actuary: *An actuary is a statistician who calculates risks.*
- e. Risk: *A risk is a possibility of loss.*

2. Turn to page 492 in the textbook and answer “Review Questions” 2 and 3.

4

Textbook question 2:

The possibility of losses in a person’s lifetime can be reduced by careful planning and by purchasing insurance.

Textbook question 3:

Sharing economic risks means that persons with a common risk may pool their money together to reduce the amount of risk taken by each person. Sharing does not eliminate the risk completely, but it does spread the loss to a larger number of people.

3. Turn to page 493 in the textbook and answer question 1 of “Applying Your Knowledge.”

3

Textbook question 1:

A business might encounter such economic losses as fire or flood, theft or vandalism, and legal action taken by a customer injured on the premises. Other examples may be provided.

4. Turn to page 513 in the textbook and answer questions 3, 4, and 5 of “Applying Your Knowledge.”

Textbook question 3:

8

The business driver will be on the road more often than the pleasure driver, and will be more likely to experience an accident. The more the car is driven, the higher the insurance is likely to be.

Textbook question 4:

Alberta does have compulsory seat-belt legislation. Therefore, insurance premiums in Alberta might be slightly lower because the likelihood of serious accidents is generally reduced for people wearing seat belts.

Textbook question 5:

Reduced highway speed limits should decrease the cost of insurance. Increasing gasoline costs may result in family cars being driven less for pleasure and/or business, and, if so, premiums might cost less. Better-built cars may cause insurance premiums to be reduced somewhat if there is a chance of less serious accidents occurring.

5

5. Complete the following statements by placing the appropriate word or words on the following response page.
 - a. The person who sells insurance for an insurance company is called *an agent*.
 - b. Another term used for policyholder is *insured*.
 - c. After an accident occurs, you may contact the insurance company and file a *claim*.
 - d. If the policyholder has coverage the insurance company will *indemnify* the policyholder for any loss which has happened.
 - e. The right which an insurance company has to sue another person for causing an accident to a policyholder is known as *subrogation*.
6. What factors would an insurance company consider in determining a premium for a 16-year-old female driving a motor vehicle? Name at least five factors.

5

Some possible factors are the following:

- *the age of the motor vehicle*
- *the make of motor vehicle*
- *the type of motor vehicle*
- *the driving record of the insured*
- *whether the insured has taken a driver-training course*
- *the motor vehicle's use – pleasure or business*
- *the number of kilometres driven per day by the insured*
- *whether the insured would be the main driver of the vehicle*
- *where the insured lives*
- *whether carpooling would be used*
- *whether smoking would be done in the vehicle*

Section 2: Types of Insurance

Key Concepts

- **purpose of insurance**
- **insurance plans available from provincial and federal agencies**
- **types of insurance plans – motor vehicle, property, medical, and life**
- **procedures for renewing policies and reporting losses**

The basic goals of this section are to insure that students

- describe the basic purpose of insurance
- compare the various insurance plans available for motor vehicles, property, and life
- identify the types of insurance available from provincial and federal government agencies
- explain how insurance can be obtained
- discuss the procedures in renewing policies and reporting losses

Section 2: Activity 1

1. a. According to the table, which age group in Ontario has the largest percentage of licensed drivers?

The age group from 25 to 34 includes the largest percentage of licensed drivers.

- b. Considering only people under age 25, which age group has the largest percentage involved in collisions?

The age group from 21 to 24 has the highest percentage of collisions, among those groups under age 25.

2. Turn to page 512 in the textbook and answer “Review Questions” 7 and 8.

Textbook question 7:

Factors considered by insurance companies when setting car insurance premium rates include the following:

- *The age of the driver – male drivers under age 25 have a greater chance of being involved in an accident and will, therefore, pay the highest premiums.*
- *The city, town, or area in which the driver lives – drivers in cities are more likely to be involved in accidents than are people living in rural areas because of the greater number of cars and traffic congestion in the cities. If the risk is higher, the premium will be higher.*
- *The driver’s record – the longer you have been driving without an accident or a conviction, the less of a risk you probably are. As a result your premiums will be lower than those of someone who has been involved in an accident or who has had a conviction.*
- *The type of car and its use – the faster and more powerful the car, the greater the probable risk of an accident, so the premium will be higher. The more you drive a car, the greater is your chance of being involved in an accident and, therefore, the higher your insurance cost.*

Textbook question 8:

The highest premiums for car insurance are paid by males under 25 years of age because research over the years has indicated that this age group has been responsible for the highest percentage of car accidents.

3. From the following incidents, indicate which ones the insured could claim as third party liability. Write Yes or No in the space provided to the right of each statement.
- a. Injury to a parent who is a passenger in a motor vehicle No
 - b. Damage to a stop sign Yes
 - c. Damage to the insured's garage No
 - d. Injury to a cyclist Yes
 - e. Injury to a pedestrian in a crosswalk Yes
 - f. Damage to another vehicle Yes
4. Indicate which section of the standard automobile insurance policy applies to each of the following items.

Item	Insurance Type
Example: An injury to a pedestrian	Third party liability
a. A vehicle crashes into a neighbour's garage.	<u>Third Party Liability</u>
b. The person driving the owner's vehicle does not have insurance: the owner does.	<u>Third Party Liability</u>
c. The owner's vehicle is damaged by fire.	<u>Comprehensive</u>
d. The owner's vehicle is towed to a garage for repairs.	<u>Accident and Medical Benefits</u>
e. A vehicle strikes a person who is riding a skateboard.	<u>Third Party Liability</u>
f. The driver needs emergency dental treatment as the result of an accident.	<u>Accident and Medical Benefits</u>
g. A driver skids on ice and causes damage to only his or her motor vehicle.	<u>Collision</u>

Section 2: Activity 2

1. From the following list indicate, in the appropriate blank spaces, whether each item is an example of real property or personal property.

Item	Type of Property
a. Barn	<u>Real Property</u>
b. Swimsuit	<u>Personal Property</u>
c. Refrigerator	<u>Personal Property</u>
d. Stove built into the wall of a kitchen	<u>Real Property</u>
e. Mobile home	<u>Personal Property</u>
f. Lighting fixture	<u>Real Property</u>
g. Trees	<u>Real Property</u>
h. Sidewalk	<u>Real Property</u>

2. Turn to page 512 in the textbook and complete “Review Questions” 11 and 13.

Textbook question 11:

You might purchase home insurance to protect against such risks as fire, theft, vandalism, the bursting of water pipes, and personal liability from people who are injured on your premises.

Textbook question 13:

When determining the cost of a homeowner’s policy, an insurance company must consider

- *the value of the home*
- *the materials from which the house was constructed*
- *the location of the nearest fire department*
- *how close the water supply is*
- *the presence or absence of a smoke detector in the home*

3. Complete the following statements:

- a. The provincial minimum amount for third party liability automobile insurance is \$200 000.
- b. Owning a condominium unit is an example of *real* property.
- c. To protect against accidents on the homeowner's premises, the owner would have *personal liability* insurance.
- d. If the *term* of an automobile insurance policy ends, the owner can *renew* the policy by paying a premium for another term.
- e. A *deductible* clause in an automobile insurance policy means that the insurance company will pay out money only over a certain amount.
- f. The pink insurance slip which the insured receives from the insurance company means that the owner has proof of *financial responsibility*.
- g. The type of automobile insurance that covers the loss of an eye would be classified as *accident and medical benefits* insurance.
- h. The person selling homeowners' insurance is called your *insurance agent*.
- i. The amount of money a homeowner pays to the insurance company for a term is called the *premium*.
- j. The most important type of automobile insurance is *third party liability* insurance.

Section 2: Activity 3

1. Turn to pages 528 and 529 in the textbook and answer "Review Questions" 2 and 11.

Textbook question 2:

The cost of premiums is based partly on the risk of dying, so it is vital for an insurance company to know the age of its clients. The younger you are, the less of a risk you are likely to be. A person's chance of dying increases as he or she gets older.

Textbook question 11:

The basic factors you should think of before buying insurance are

- *what you want to protect*
- *what the costs and losses will be for any dependents of the deceased*
- *how much money will the family need to carry on without the insured*

2. You have just purchased a life insurance policy from David Balfour Life Insurance Company Ltd. The face value of the policy is \$25 000. Your policy includes the double indemnity provision, and your beneficiaries are your wife and daughter.

- a. If you had a heart attack and died as a consequence, how much money would your beneficiaries receive from the life insurance company?

Your beneficiaries would receive \$25 000.

- b. If you died in an automobile accident, how much money would your beneficiaries receive from your life insurance company?

Your beneficiaries would receive \$50 000 from your life insurance company.

- c. What would the life insurance company need to know before paying the beneficiaries?

Before paying the beneficiaries the life insurance company needs to know whether the insured died through natural causes or as a result of an accident.

- d. What document does the life insurance company need before indemnifying the beneficiaries?

The life insurance company requires a death certificate before indemnifying the beneficiaries.

Section 2: Activity 4

Turn to page 529 in the textbook and complete “Review Questions” 13 and 14.

Textbook question 13:

The Unemployment Insurance Commission is a federal government agency responsible for the administration of a fund from which claims are paid to workers who have been unemployed for a certain period of time.

Textbook question 14:

The Workers' Compensation Board is a provincial government agency responsible for the payment of money to any worker who is injured on the job, or who is affected by a disease as a result of his or her employment.

Follow-up Activities

Extra Help

1. Indicate what specific type of insurance is provided by each of the following types of coverage. Write down your answer in the space provided to the right of each statement.

Type of Coverage

Type of Insurance

Example: A vehicle strikes a road sign.

Collision

- | | |
|---|--|
| a. While on the job, a worker is injured by a fellow worker. | <u>Workers' Compensation Insurance</u> |
| b. A worker is laid off. | <u>Unemployment Insurance</u> |
| c. A driver is the victim of a hit-and-run accident. | <u>Uninsured Motor Vehicle Claims Fund</u> |
| d. This type of life insurance can be renewed every five years. | <u>Term Insurance</u> |
| e. A visitor is injured on your property. | <u>Personal Liability Insurance</u> |
| f. A driver's vehicle has a cracked windshield that needs to be repaired. | <u>Comprehensive Insurance</u> |
| g. A person is assaulted by a convicted criminal. | <u>Crimes Compensation Board</u> |
| h. Body damage is done to a parked motor vehicle by a hit-and-run driver. | <u>Collision Insurance (or Comprehensive if any vandalism is involved)</u> |
| i. A driven car strikes a bicyclist. | <u>Third Party Liability Insurance</u> |
| j. This type of life insurance lasts an entire lifetime. | <u>Whole Life Insurance</u> |
| k. Fire destroys a person's home. | <u>Homeowner's Insurance</u> |
| l. Fire destroys a person's motor vehicle. | <u>Comprehensive Insurance (unless caused by a collision)</u> |

2. Turn to pages 512 and 513 in the textbook and answer questions 1 and 8 of “Applying Your Knowledge.”

Textbook question 1:

It is advisable to purchase more than the legal minimum (\$200 000) of third party liability insurance because more and more court awards in recent years have been well over the provincial minimum. Damage awards are now exceeding the \$1 million mark.

Textbook question 8:

The potential risk is too great. A fire in one home might easily spread to the other houses on the street, causing extremely high losses that would all have to be covered by one company.

3. Turn to page 529 in the textbook and answer question 4 of “Applying Your Knowledge.”

Textbook question 4:

Dangerous work brings people into greater contact with possible danger and risk. This makes it more likely that they might have insurance claims and makes their premiums more expensive. Dangerous jobs include working on skyscrapers, working around explosives, racing cars, horse racing, police work, working in prisons, skydiving, flying planes, rodeo work, and racing chuckwagons.

Enrichment

Part A

Obtain the videotape entitled “Insurance” from the “You and the Law” series. Producer: ACCESS, 1987. Answer questions 1 to 4 using the information from the video.

1. What types of insurance are discussed?

The types of insurance discussed are

- *homeowners’ insurance*
- *automobile insurance*
- *crop insurance*
- *life insurance*
- *mortgage insurance with a built-in life insurance provision*

2. What is meant by *deductible*?

Deductible means that the insured will pay part of the loss and the insurance company will pay the balance owing. If the insured has a \$100 deductible applied to a loss of \$225, then the insured will pay \$100 and the insurance company will indemnify the insured with \$125.

3. What is the source of information for insurance?

The Insurance Act of Alberta is the source of information for insurance.

4. How is liability explained?

Liability is explained by indicating who is legally responsible before a claim is paid out by the insurance company. If the insured has coverage on property, then the insurance company may be liable (legally responsible) for a certain amount. If the insured does not have coverage, then the owner will suffer the total financial loss.

Part B

Visit or telephone a life insurance agency and determine what the premium is on your life.

Indicate the following information:

1. Your age 16
2. Your occupation Student
3. Your beneficiary and his or her relationship to you. Jonathan, brother

4. The cost of a five-year term policy (per \$1000 of insurance coverage).

The cost is \$5.42 per \$1000 of insurance coverage per year (approximate cost).

5. The cost of a whole-life policy (per \$1000 of insurance coverage).

The cost is \$11.50 per \$1000 of insurance coverage per year (approximate cost).

6. The amount of life insurance you might wish to purchase.

The amount of life insurance one may wish to purchase is \$25 000.

7. Your reasons for purchasing life insurance.

Some possible reasons may be the following:

- *provide benefits for relatives*
- *make provision for immediate family members*
- *provide benefits to your favourite charity*

Section 2 Assignment

2

1. What is the basic purpose of life insurance?

The basic purpose of life insurance is to provide financial protection to family members and/or dependents in case of death.

3

2. Explain proof of financial responsibility.

Proof of financial responsibility is the pink slip which the owner of a motor vehicle receives from the insurance company. This means that the owner has at least the provincial minimum of \$200 000 in third party liability insurance. All parts of the answer must be indicated for full credit.

3

3. What types of insurance are available from provincial and federal government agencies?

The types of insurance available from the provincial government are Workers' Compensation, Crimes Compensation (for victims of crime), and Uninsured Motor Vehicle Claims (for injuries received from hit-and-run drivers). Insurance available from the federal government is Unemployment Insurance.

6

4. Complete the following statements by placing the most appropriate word or words on the following response page.

- a. The minimum amount of third party liability automobile insurance in Alberta is \$200 000.
- b. The clause in a standard automobile insurance policy where the company will pay out over a certain amount is called the *deductable* clause.
- c. The section of a standard automobile insurance policy where the company states it will pay for glass breakage on a motor vehicle is called the *comprehensive* section.
- d. If an injured person dies from his or her injuries, the company will *indemnify* (or *reimburse*, or *pay out to*) the beneficiary the face amount of the policy.
- e. A minor criminal offence in Canada is called a *summary conviction* offence when the penalty is usually a fine.
- f. An individually-owned unit in a multi-unit building structure is called a *condominium*.

7

5. Turn to page 513 in the textbook and answer question 11 of “Applying Your Knowledge.”

Textbook question 11:

The amount of the liability insurance that you have should be greater than it is for someone whose home and contents are worth less. The more you entertain, and have other people visiting your home, the greater the chance of some sort of accident or risk occurring. Whether students agree with the statement is a matter of personal opinion. There should be a statement by the student.

12

6. Turn to page 529 in the textbook and answer questions 7 and 9 of “Applying Your Knowledge.” In question 9 assume the question refers only to life insurance.

Textbook question 7:

The odds of a person over 70 years of age dying are much greater than are those of a younger person. Because of this, the premiums would be too expensive because the risk to the insurance company would be considerable. Whether students agree is a matter of personal opinion. There should be a statement by the student.

Textbook question 9:

The answer is a matter of personal opinion. Each adult member of a family should carry at least enough insurance to pay for funeral costs upon his or her death. With more and more families composed of two working spouses, it makes sense that both wage earners be insured. If the family has dependent children, it is essential that both spouses be insured.

7. Read the following scenario and answer the questions.

7

Ammine Gandhi was driving to Banff in her 1989 sports coupe with her sister, Maya, and Maya’s friend, Rajiv. As she neared the town of Canmore, Ammine lost control of her car and collided with an oncoming vehicle driven by Bart Fader. The damage was \$4500 to Bart Fader’s vehicle and \$5100 to Ammine’s car. Ammine has a standard automobile insurance policy with the Richard Tracy Insurance Agency. Her coverage includes third party liability of \$200 000, \$100 deductible collision insurance, and \$125 deductible comprehensive insurance. Although Ammine was not hurt, Maya and Rajiv were both severely injured. Bart suffered a mild concussion and developed paralysis in his right leg. The following claims were filed against Ammine’s insurance company: Maya, \$45 000; Rajiv, \$50 000; Bart, \$125 000.

- a. How much can Ammine collect for damage to her vehicle?

Ammine can collect \$5000 (\$5100 less the \$100 deductible).

- b. How much will the insurance company pay to Ammine's passengers? (Be specific.)

Maya – nothing (because she is a family member).

Rajiv – \$50 000

- c. How much can Bart collect from Ammine's insurance company?

Bart can collect \$129 500 (\$125 000 for personal injuries and \$4500 for damage to his vehicle).

- d. What is the total amount of money that Ammine's insurance company will have to pay out?

Ammine's insurance company will have to pay \$184 500.

<i>Bart Fader's vehicle</i>	–	\$ 4500
<i>Ammine's vehicle</i>	–	5000
<i>Injury to Rajiv</i>	–	50 000
<i>Injury to Bart</i>	–	<u>125 000</u>
<i>TOTAL</i>		<i>\$184 500</i>

Section 3: Governing Insurance

Key Concepts

- government control over insurance
- professional associations in the insurance industry
- insurance plans available in the workplace
- careers in the insurance field

The basic goals of this section are to ensure that students

- describe the various forms of government control over insurance
- discuss the professional associations in the insurance industry
- identify types of insurance available in the workplace
- examine career opportunities in the insurance industry

Teaching Suggestions

The following activities may help to enhance the concepts discussed in this section:

- Explain the legal requirements needed to obtain a license to sell insurance in Alberta.
- Prepare a bulletin board display of career opportunities available in the insurance industry.
- Obtain filmstrips and brochures from the Insurance Bureau of Canada to discuss the various types of insurance available.
- Contact an insurance agent from a large insurance company to address students on careers available in the insurance industry.

Section 3: Activity 1

1. Define the following terms:

a. Policy:

A policy is an insurance agreement or contract between the insurance company and the insured.

b. Insurer:

The insurer is the specific insurance company that gives protection against loss. It is also called the underwriter.

c. Insured:

The insured is the person who receives protection from the insurance company.

d. Indemnity:

Indemnity is compensation or a payment made to the beneficiary or insured by the insurance company.

e. Premium:

A premium is the sum of money paid to an insurance company for insurance protection.

2. Why would the provincial or federal government not renew an insurance company's licence?

The loss of an operating licence can occur if the company or agent does not follow government policies and regulations.

3. Who would you contact if you had a problem concerning your automobile insurance plan?

If you had a problem concerning your automobile insurance plan, you could contact your insurance agent. You could also contact the insurance division of your regional office of Alberta Consumer and Corporate Affairs.

Section 3: Activity 2

1. Turn to page 528 in the textbook and answer “Review Question” 3.

Textbook question 3:

Individual life insurance is an agreement between one person, called the insured, and an insurance company, called the insurer. Group life insurance is insurance provided to a group of people with a common interest, under a contract between the insurer and the group. In most cases group insurance covers groups of employees but it could cover other non-employee groups such as the alumni of a university, or credit card holders of a certain business.

2. Turn to page 529 in the textbook and answer “Review Question” 12.

Textbook question 12:

Hospital insurance and medical insurance are paid for by premiums paid by insured persons and from government taxes.

3. a. What dental work was done during your last visit to the dentist?

Your last visit to the dentist might have involved the following:

- *a check-up*
- *teeth cleaning*
- *fillings*
- *x-rays*
- *the beginning of major dental work, such as preparation for crowns*
- *extraction of wisdom teeth*

- b. What was the cost?

The cost of the dental services was, for example, \$143.94.

- c. Did you have dental insurance to cover these costs?

You may have had dental insurance to cover the costs.

Section 3: Activity 3

1. Turn to page 493 in the textbook and answer “Review Question” 14.

Textbook question 14:

People in the insurance industry can work as lawyers, computer programmers, systems analysts, artists, advertising specialists, insurance agents, and insurance brokers.

2. Define the following terms as they relate to jobs in the insurance industry:

- a. Broker:

A broker is an insurance agent or salesperson.

- b. Adjuster:

An adjuster is a person who decides how much money the insurance company will pay to the policyholder.

- c. Appraiser:

An appraiser is a person who estimates the amount of loss or damage done.

- d. Systems Analyst:

A systems analyst is a person who separates a problem into its parts to find out their interrelationships, and applies a computer to the problem.

- e. Computer Programmer:

A computer programmer is a person who prepares a logical sequence of operations to be performed by a computer while it is processing data.

- f. Marketing:

Marketing is the act of buying or selling in a market; all business activity involved in the moving of goods from the producer to the consumer, including advertising and packaging.

Follow-up Activities

Extra Help

1. What legislation in Alberta covers insurance?

The Insurance Act is the legislation in Alberta that covers insurance.

2. Who governs the regulation of insurance in Alberta?

The Superintendent of Insurance governs the regulation of insurance in Alberta.

3. Name three types of insurance that are controlled by the provincial government.

Types of insurance controlled by the provincial government include

- *fire*
- *automobile*
- *life*
- *accident and sickness*
- *livestock*
- *hail*
- *weather*
- *health*

4. What is the basic purpose for having the provincial government regulate the reserve requirements?

The basic purpose for having the provincial government regulate the reserve requirements is to protect insurance companies against excessive losses and bankruptcy.

5. Name two professional associations that can give consumers advice on insurance problems.

Professional associations that can give consumers advice on insurance problems include the following:

- *the Insurance Bureau of Canada*
- *the Canadian Life Insurance Association*
- *the Insurance Institute of Canada*
- *Consumer and Corporate Affairs of Alberta, Insurance Division*

6. Where can you obtain information about careers in the insurance industry?

Information about careers in insurance can be obtained from the following:

- your school counsellor
- a college or university
- an employment agency
- the Insurance Institute of Alberta (located in Edmonton)
- the Canadian Life Insurance Association
- a life insurance company

7. Identify the specific type of insurance for each of the following items. Write your answers in the appropriate spaces to the right of each situation.

Item	Type of Insurance
Example: Contains long-term disability insurance	Group Insurance
a. Root canals	<u>Dental insurance</u>
b. Income received while being unable to work at your regular job	<u>Disability insurance; unemployment insurance</u>
c. Hospital meals during treatment	<u>Health insurance: Alberta Health Care</u>
d. Medical examinations	<u>Alberta Health Care; medical insurance</u>
e. Extractions	<u>Dental insurance</u>

Enrichment

1. Visit your school counsellor or an employment agency and obtain the following information.

- a. What are the names of two careers in the insurance field?

Two possible careers in the insurance field are life insurance agents and insurance adjusters.

- b. What qualifications are required for these two careers?

Agent qualifications include the ability to work, a high school education and some post-secondary instruction, an ability to persuade others to purchase insurance, and on-the-job training set up by the life insurance company.

To be an adjuster, you must be a self-starter because adjusters usually work alone. You must be a high school graduate with some post-secondary instruction, and you must be a good data organizer.

- c. What are the approximate starting salaries for the two jobs?

An agent's annual starting salary usually ranges from \$20 000 to \$30 000, while adjusters start at about \$20 000 per year, with added benefits.

- d. What kind of work is done in each career?

An agent may do any or all of the following:

- *sell policies to clients*
- *establish records and keep a filing system*
- *persuade clients to purchase insurance*
- *calculate premiums*
- *make telephone calls*
- *write letters*
- *travel*
- *work evenings*

An adjuster may do any or all of the following:

- *determine how the loss occurred*
- *negotiate a settlement with the insured*
- *be able to speak the language of the insured*
- *know some legal terminology when talking to lawyers*
- *be able to work with people*
- *write*

2. Visit a life insurance company in your area and obtain some information about dental insurance. Answer the following questions.

- a. What is the name of the insurance company?

One possible example is the London Life Insurance Company.

- b. What coverage does the dental plan provide?

The plan may, for example, cover the following areas:

- *oral examinations*
- *x-rays*
- *consultation*
- *anaesthesia*
- *fillings*
- *oral hygiene*
- *root canals*
- *surgery*
- *extractions*
- *fractures*
- *partial coverage (50%) of the cost of crowns*
- *pins*
- *dentures*

- c. What does the dental plan not cover?

The plan may, for example, exclude the following:

- *charges for failing to keep appointments*
- *charges for the completion of insurance forms*
- *charges for athletic mouthguards*
- *the repair of dentures*
- *services for injuries resulting from criminal actions*

- d. What is the monthly cost of the dental plan?

The dental plan cost per month ranges from \$20 to \$40.

Section 3 Assignment

6

1. Complete the following statements by placing the most appropriate word or words on the following response page.

- a. The legislation in Alberta for insurance is called the *Insurance Act*.
- b. The person who regulates insurance law in Alberta is the *Superintendent of Insurance*.
- c. Before operating an insurance business in Alberta the company needs a *licence* from the provincial government.
- d. The type of insurance which includes benefits for oral examinations, x-rays, root canals, and extractions is called *dental* insurance.
- e. Two types of insurance controlled by the provincial government are *auto insurance* and *life insurance*. (Other possible answers are fire and hail insurance.)

12

2. Define the following terms as they relate to the insurance industry:

- a. Underwriter:

An underwriter is another name for an insurer who insures against loss.

- b. Reserve:

Reserve is money or cash kept for a future use or need.

- c. Marketing:

Marketing is the act of buying or selling in a market. It is all business activity involved in the moving of goods from the producer to the consumer, including advertising and packaging.

- d. Indemnity:

Indemnity is compensation or a payment made to the beneficiary or insured by the insurance company.

- e. Analyst:

An analyst is a person who separates a thing or idea into its elements to find out their relationships.

- f. Appraiser:

An appraiser is a person who estimates the amount of loss or damage done.

3. Turn to pages 529 and 530 in the textbook and answer questions 5, 11, 12, and 13 of “Applying Your Knowledge.”

Textbook question 5:

Group insurance involves a large number of people pooling their resources to buy inexpensive term insurance. Since there are many people paying premiums, the cost to each person is relatively low.

Textbook question 11:

There are many group health insurance plans available because many medical costs are not covered by provincial medical plans. Group health insurance plans can also be obtained to cover such things as a loss of income during illness, and disability insurance to replace part of your income due to disability.

Textbook question 12:

Whether or not it is a good idea to get insurance protection for illness is a matter of personal opinion. Payment into a medical plan is a wise protection against possible risk.

Textbook question 13:

Provincial governments say that basic medical care is the right of all Canadians, regardless of income. The government establishes fees, and makes exceptions to the rules for people in need. In many provinces, this includes free medical care and drugs for senior citizens. These are items that would be too costly for private businesses to provide.

Final Test

There are two copies of the final test: the teacher's copy which includes a marking guide, and the student's copy which is perforated and designed for photocopying and possible faxing.

Note:

The student's copy and the teacher's copy of this final test should be kept secure by the teacher. Students should not have access to this test until it is assigned in a supervised situation. The answers should be stored securely and retained by the teacher at all times.

THE FUTURE

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BASIC BUSINESS 20

FINAL TEST

GENERAL INSTRUCTIONS

YOU HAVE TWO HOURS TO COMPLETE THIS TEST. Work through the entire test answering the questions you are sure you know. You will then be able to concentrate on the questions of which you are not quite sure.

TOTAL MARKS: 100

PART A: Multiple Choice – 16 marks

PART B: Fill in the Blanks – 12 marks

PART C: True and False – 12 marks

PART D: Short Answer/Problem Solving – 60 marks

Value

PART A: MULTIPLE CHOICE

16

Part A is worth 16 marks of the total examination mark.

All multiple-choice questions must be answered on the Part A Response Page included in your test.

Read each question carefully and decide which of the choices BEST completes the statement or answers the question. Locate the question number on the Response Page and fill in the space that corresponds to your choice.

Example:

An industry which is closely related to secondary industry is

Response Page

- A. shipbuilding

B. forestry

C. the restaurant business

D. farming
- A

1.

- B

1. The basic ideas that make a free-enterprise system work are

A. freedom, the efficient use of resources, and profit

B. competition, profit, and private property

C. profit, the efficient use of resources, and risk

D. natural resources, profit, and private property

- C

2. Franchises in Canada

A. represent a declining percentage of retail sales

B. are found mainly in primary industries

C. can be found in nearly all aspects of retail sales

D. have a great deal of management freedom

- C

3. The phrase “profit is the incentive for business” means that profit

A. provides a strong reason to reduce investment

B. reduces the need for an efficient use of resources

C. provides a reward for the risk and effort provided

D. provides an incentive to increase expenses

- B

4. The type of loan most commonly used to purchase a home is

A. an instalment loan

B. a mortgage

C. a chattel mortgage

D. a demand loan

- A 5. A credit card issued by a store or financial institution is an example of
- A. retail credit
 - B. cash credit
 - C. service credit
 - D. none of the above
- A 6. "I love the freedom that being able to buy on credit provides," says Marion, "but I find that I tend to buy so many things I really don't need." This is an example of
- A. impulse buying
 - B. consumable services
 - C. convenience shopping
 - D. consumerism
- D 7. An example of real property is
- A. furniture and appliances
 - B. motor vehicles
 - C. small household goods
 - D. land and houses
- C 8. The organizations that are in the business of keeping track of the credit histories of numerous credit users in a particular area are called
- A. financial consulting companies
 - B. credit unions
 - C. credit bureaus
 - D. consumer loan companies
- A 9. Which of the following is NOT part of analysing your financial commitments?
- A. Identifying all of your assets.
 - B. Determining your monthly payment limit.
 - C. Identifying all of your expenses.
 - D. Planning for financial emergencies.
- B 10. The person who researches data and submits a report to the insurance company for determining a premium rate is called an
- A. agent
 - B. actuary
 - C. appraiser
 - D. adjuster

- D 11. The right which an insurance company has to sue another person for causing an accident to a policyholder is known as
- A. a policy
 - B. coverage
 - C. a moral cause
 - D. subrogation
- D 12. One factor which would NOT affect your premium for automobile insurance is
- A. your birthdate
 - B. your vehicle type
 - C. your locale
 - D. your social insurance number
- C 13. The type of insurance which protects an insured person against the theft of an automobile is
- A. third party liability
 - B. collision
 - C. comprehensive
 - D. accidental medical benefits
- A 14. An example of a summary conviction offence is
- A. jaywalking
 - B. break and enter
 - C. manslaughter
 - D. murder
- B 15. While in a parking lot your vehicle had \$96.42 damage done to it by a hit-and-run driver. If you had collision insurance (with \$100 deductible) how much would you have to pay to have your vehicle repaired?
- A. \$100.00
 - B. \$96.42
 - C. \$3.58
 - D. \$0.00
- B 16. In a large corporation
- A. shareholders have contact with customers on a daily basis
 - B. large amounts of capital are available
 - C. most shareholders take an active part in the running of the corporation
 - D. taxation rates are usually quite low

Rough Work

(Marks will not be given for work done on this page.)

PART A: RESPONSE PAGE

 B 1.

 A 9.

 C 2.

 B 10.

 C 3.

 D 11.

 B 4.

 D 12.

 A 5.

 C 13.

 A 6.

 A 14.

 D 7.

 B 15.

 C 8.

 B 16.

Value

PART B: FILL IN THE BLANKS

12

Part B is worth 12 marks of the total examination mark.

All fill in the blank questions must be answered on the Part B Response Page included in your test.

Read each sentence carefully and decide which word or words BEST completes the statement. Locate the question number on the Response Page and fill in the space with the word or words of your choice.

Example: An industry which is closely related to _____ industry is shipbuilding.

Response Page 1. secondary

1. A discussion between the prospective employer and a job applicant is called the _____.
2. Paying debts late may result in a _____ being charged to the borrower.
3. Assets are often used as _____ when someone is trying to obtain a loan.
4. If an insured person wants the beneficiary to receive double the face value of the life insurance policy should the insured die accidentally, then the insured must have the _____ option.
5. The person legally responsible for an accident can be found _____ for damages in a lawsuit.
6. A declaration of bankruptcy becomes legal when the necessary documents are filed with the _____.
7. The process of paying off all debts with one loan is known as _____.
8. One form of securing credit is by having a _____, who will make payments on the loan if the original borrower fails to do so.
9. A letter written by someone requesting a job interview is called a _____.
10. _____ are names of people who can be used to recommend a person as a potential employee.
11. A business which is owned by its customers is called a _____.
12. An economic system that has some restrictions on the actions of individuals and businesses is called _____.

PART B: RESPONSE PAGE

1. interview (or job interview)
2. penalty
3. collateral
4. double indemnity
5. liable
6. official receiver
7. debt consolidation
8. co-signer/guarantor
9. job application letter
10. References
11. co-operative
12. free enterprise

Value

PART C: TRUE AND FALSE

12

Part C is worth 12 marks of the total examination mark.

Indicate whether each of the following statements is either true or false. Write T for true or F for false in the blank spaces provided on the Part C Response Page included in your test.

Example: Shipbuilding is an example of a primary industry.

Response Page F 1.

- T 1. In the future it will be commonplace for workers to change jobs or careers many times.
- T 2. Matching your interests and aptitudes will help you make a career decision.
- T 3. Examples of communication systems include computer teleprocessing and personal contact during meetings.
- F 4. Taxation is the one area where government competes with business.
- T 5. Canada Post is an example of a government-owned monopoly.
- F 6. A person who invents a new type of device can obtain a copyright from the federal government.
- F 7. Every provincial government levies a sales tax as a form of regulation.
- F 8. The Better Business Bureau is a consumer organization which conducts product tests.
- T 9. The *Consumer Packaging and Labelling Act* requires that an ordered list of ingredients be placed on labels of food containers.
- F 10. The certification mark of the Canadian Standards Association must appear on all toys sold in Canada.
- F 11. A business owned by shareholders is called an industry.
- T 12. Competition occurs if two or more businesses try to sell the same type of goods or services to the same customer.

PART C: RESPONSE PAGE *T* 1. *F* 7. *T* 2. *F* 8. *T* 3. *T* 9. *F* 4. *F* 10. *T* 5. *F* 11. *F* 6. *T* 12.

Value**PART D: SHORT ANSWER/PROBLEM SOLVING****60**

Part D is worth 60 marks of the total examination mark.

Answer each of the following questions using the space available on the Part D Response Page included in your test.

Read each question carefully and indicate your answer using complete sentences where required.

3

1. Explain how profit encourages the efficient use of resources by businesses.

3

2. List three major advantages of a sole proprietorship business.

3

3. The accounting department of a manufacturing business is responsible for producing a financial plan. What is an accounting financial plan? Explain how it is prepared.

PART D: RESPONSE PAGE

1. *Businesses strive to increase profits. If costs can be kept low or decreased, profits will increase. The efficient use of resources will keep costs low or decrease costs. Therefore, the desire for profit will encourage the efficient use of resources.*

2. *Some possible advantages are the following:*
 - *A proprietor receives satisfaction from business success.*
 - *The owner receives all the profits.*
 - *The owner knows all the customers and employees.*
 - *It is easy to set up.*
 - *There are no disagreements, and it is easy to make decisions.*

3. *An accounting financial plan is a set of statements or forms that tells a business owner several things about his or her operation. The plan should show what the business owns and what is owed to others (balance sheet). Profits or losses need to be calculated, and this is accomplished by subtracting costs and expenses from revenue (income statement). A plan should also forecast or predict what will happen in the future: the device that is used is called a budget. The balance sheet and income statement may be the starting points of a budget, but they should be considered statements of what has already occurred, rather than a plan.*

- 3 4. List three places where you can gather information on careers.
- 3 5. Why is it necessary to have public goods and services provided by government agencies when there is an abundance of private goods and services?
- 4 6. Define the following:
- a. public sector
 - b. private sector

PART D: RESPONSE PAGE

4. *One can gather information on careers from*
- *Canada Employment Centres*
 - *school counsellors*
 - *libraries*
 - *talking to people with related careers*
5. *Some goods and services are too costly to produce and offer. As a result, private businesses will not invest in these ventures. Governments provide these goods and services to meet the consumer demand in the marketplace. In some cases these goods and services are not provided by private businesses, and in other instances government businesses compete with private sector operations. In some cases the government is the only logical supplier of services, such as defence, the money supply, and the court system.*
6. a. **Public sector** • *This is the part of the economy that is controlled by governments. All goods and services provided by the three levels of government make up the public sector.*
- b. **Private sector** • *This includes all parts of the Canadian economy outside of the public sector: individually-owned businesses that produce goods and services. These businesses could be organized as single proprietorships, partnerships, or corporations.*

- 2 7. What does the Consumers' Association of Canada do to help consumers?
- 8 8. List and explain the four types of advertisements used by companies to attract customers. Give an example of each type.
- 4 9. What is the major difference between Schedule A banks and Schedule B banks?

PART D: RESPONSE PAGE

7. *The CAC conducts independent product tests and publishes the results of its ratings. It also presents consumer views to governments, studies consumer problems, makes recommendations to concerned groups, and helps unite consumers.*
8. *Four types of advertisements are*
- repetitive*
 - emotional*
 - testimonial (well known person, average citizen)*
 - informative*
9. *Schedule A and Schedule B banks are both chartered banks. Schedule A banks generally service a wide range of individuals and businesses. Schedule B banks generally service businesses. Schedule A banks have many shareholders, while Schedule B banks have few shareholders.*

- 9 10. Using the calculation of annual interest formula, find the missing figures in the following chart.

LOAN REPAYMENT SCHEDULE
\$1000/12 MONTHS/12%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$1000.00	Jan. (31)	\$88.85	\$	\$
	Feb. (28) (29 days in a Leap Year)	88.85		80.37
840.97	Mar. (31)	88.85	8.57	
	Apr. (30)	88.85	7.50	81.35
	May (31)	88.85		81.93
597.41	June (30)	88.85	5.89	

- 1 11. Based on the previous table, what is the total amount of interest paid?
- 2 12. Explain what is meant by a *blended payment*?
- 2 13. Name two places where insurance can be purchased.

PART D: RESPONSE PAGE

10.

LOAN REPAYMENT SCHEDULE
\$1000/12 MONTHS/12%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$1000.00	Jan. (31)	\$88.85	\$10.19	\$78.66
921.34	Feb. (28) (29 days in a Leap Year)	88.85	8.48	80.37
840.97	Mar. (31)	88.85	8.57	80.28
760.69	Apr. (30)	88.85	7.50	81.35
679.34	May (31)	88.85	6.92	81.93
597.41	June (30)	88.85	5.89	82.96

- 11. *The total amount of interest paid is \$47.55*
- 12. *A **blended payment** combines the payment of interest and the repayment of principal into one payment.*
- 13. *Insurance can be obtained from your employer, your insurance agent, vending machines, and some retail outlets.*

- 1 14. Under what provincially legislated act are licences issued to insurance companies?
- 4 15. Name four items which might be included as coverage in a dental insurance contract?
- 2 16. What are two advantages of purchasing group insurance?

PART D: RESPONSE PAGE

14. *Licences are issued to insurance companies under the Insurance Act of Alberta.*
15. *Items which may be included are the following:*
- *oral examinations*
 - *x-rays*
 - *consultation*
 - *fillings*
 - *anaesthesia*
 - *oral hygiene*
 - *root canals*
 - *extractions*
 - *surgery*
 - *fractures*
16. *The advantages of purchasing group insurance are the following:*
- *The premium is low.*
 - *No medical examination is required.*
 - *The coverage includes family members.*
 - *The benefits may be greater than those from a private company, where insurance is purchased individually.*

- 2** 17. Using credit cards can have several disadvantages. List two of these disadvantages.
- 2** 18. List one advantage and one disadvantage of taking a short-term loan rather than a long-term loan.
- 2** 19. What is *term* insurance?

PART D: RESPONSE PAGE

17. *The disadvantages of using a credit card include the following:*

- *The interest rate charged on the unpaid balance is high.*
- *Impulse buying is encouraged.*
- *People can easily live beyond their means using credit.*
- *People buy goods they may not really need.*

18. *Advantages of short-term loans are the following:*

- *The loan can be quickly paid off.*
- *The total interest cost is lower than it is for a long-term loan.*

Disadvantages of short-term loans are the following:

- *High monthly payments tie-up extra cash.*
- *The financial institution may demand repayment at any time, since demand loans are usually short-term loans.*
- *It may be difficult to save extra cash for an emergency.*

19. ***Term insurance** is used to provide protection for a certain period of time, such as one year or five years. **Flight insurance** is a common type of term insurance; the insurance only covers the length of the plane flight.*

Total: _____
100

END OF FINAL TEST

TEACHER'S COPY

BASIC BUSINESS 20

FINAL TEST

GENERAL INSTRUCTIONS

YOU HAVE TWO HOURS TO COMPLETE THIS TEST. Work through the entire test answering the questions you are sure you know. You will then be able to concentrate on the questions of which you are not quite sure.

TOTAL MARKS: 100

PART A: Multiple Choice – 16 marks

PART B: Fill in the Blanks – 12 marks

PART C: True and False – 12 marks

PART D: Short Answer/Problem Solving – 60 marks

Value

PART A: MULTIPLE CHOICE

16 Part A is worth 16 marks of the total examination mark.

All multiple-choice questions must be answered on the Part A Response Page included in your test.

Read each question carefully and decide which of the choices BEST completes the statement or answers the question. Locate the question number on the Response Page and fill in the space that corresponds to your choice.

Example:

An industry which is closely related to secondary industry is

Response Page

- A. shipbuilding

B. forestry

C. the restaurant business

D. farming
- A

1.

1. The basic ideas that make a free-enterprise system work are
- A. freedom, the efficient use of resources, and profit

B. competition, profit, and private property

C. profit, the efficient use of resources, and risk

D. natural resources, profit, and private property
2. Franchises in Canada
- A. represent a declining percentage of retail sales

B. are found mainly in primary industries

C. can be found in nearly all aspects of retail sales

D. have a great deal of management freedom
3. The phrase “profit is the incentive for business” means that profit
- A. provides a strong reason to reduce investment

B. reduces the need for an efficient use of resources

C. provides a reward for the risk and effort provided

D. provides an incentive to increase expenses
4. The type of loan most commonly used to purchase a home is
- A. an instalment loan

B. a mortgage

C. a chattel mortgage

D. a demand loan

5. A credit card issued by a store or financial institution is an example of
 - A. retail credit
 - B. cash credit
 - C. service credit
 - D. none of the above
6. "I love the freedom that being able to buy on credit provides," says Marion, "but I find that I tend to buy so many things I really don't need." This is an example of
 - A. impulse buying
 - B. consumable services
 - C. convenience shopping
 - D. consumerism
7. An example of real property is
 - A. furniture and appliances
 - B. motor vehicles
 - C. small household goods
 - D. land and houses
8. The organizations that are in the business of keeping track of the credit histories of numerous credit users in a particular area are called
 - A. financial consulting companies
 - B. credit unions
 - C. credit bureaus
 - D. consumer loan companies
9. Which of the following is NOT part of analysing your financial commitments?
 - A. Identifying all of your assets.
 - B. Determining your monthly payment limit.
 - C. Identifying all of your expenses.
 - D. Planning for financial emergencies.
10. The person who researches data and submits a report to the insurance company for determining a premium rate is called an
 - A. agent
 - B. actuary
 - C. appraiser
 - D. adjuster

- 11. The right which an insurance company has to sue another person for causing an accident to a policyholder is known as
 - A. a policy
 - B. coverage
 - C. a moral cause
 - D. subrogation

- 12. One factor which would NOT affect your premium for automobile insurance is
 - A. your birthdate
 - B. your vehicle type
 - C. your locale
 - D. your social insurance number

- 13. The type of insurance which protects an insured person against the theft of an automobile is
 - A. third party liability
 - B. collision
 - C. comprehensive
 - D. accidental medical benefits

- 14. An example of a summary conviction offence is
 - A. jaywalking
 - B. break and enter
 - C. manslaughter
 - D. murder

- 15. While in a parking lot your vehicle had \$96.42 damage done to it by a hit-and-run driver. If you had collision insurance (with \$100 deductible) how much would you have to pay to have your vehicle repaired?
 - A. \$100.00
 - B. \$96.42
 - C. \$3.58
 - D. \$0.00

- 16. In a large corporation
 - A. shareholders have contact with customers on a daily basis
 - B. large amounts of capital are available
 - C. most shareholders take an active part in the running of the corporation
 - D. taxation rates are usually quite low

Rough Work

(Marks will not be given for work done on this page.)

PART A: RESPONSE PAGE

- _____

1.
- _____

2.
- _____

3.
- _____

4.
- _____

5.
- _____

6.
- _____

7.
- _____

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12.
- _____

13.
- _____

14.
- _____

15.
- _____

16.

Name of Student _____

Student I.D. # _____

Name of School _____

Date _____

Value**PART B: FILL IN THE BLANKS****12**

Part B is worth 12 marks of the total examination mark.

All fill in the blank questions must be answered on the Part B Response Page included in your test.

Read each sentence carefully and decide which word or words BEST completes the statement. Locate the question number on the Response Page and fill in the space with the word or words of your choice.

Example: An industry which is closely related to _____ industry is shipbuilding.

Response Page 1. secondary

1. A discussion between the prospective employer and a job applicant is called the _____.
2. Paying debts late may result in a _____ being charged to the borrower.
3. Assets are often used as _____ when someone is trying to obtain a loan.
4. If an insured person wants the beneficiary to receive double the face value of the life insurance policy should the insured die accidentally, then the insured must have the _____ option.
5. The person legally responsible for an accident can be found _____ for damages in a lawsuit.
6. A declaration of bankruptcy becomes legal when the necessary documents are filed with the _____.
7. The process of paying off all debts with one loan is known as _____.
8. One form of securing credit is by having a _____, who will make payments on the loan if the original borrower fails to do so.
9. A letter written by someone requesting a job interview is called a _____.
10. _____ are names of people who can be used to recommend a person as a potential employee.
11. A business which is owned by its customers is called a _____.
12. An economic system that has some restrictions on the actions of individuals and businesses is called _____.

PART B: RESPONSE PAGE

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____
- 6. _____
- 7. _____
- 8. _____
- 9. _____
- 10. _____
- 11. _____
- 12. _____

Name of Student _____	Student I.D. # _____
Name of School _____	Date _____

Value

PART C: TRUE AND FALSE

12

Part C is worth 12 marks of the total examination mark.

Indicate whether each of the following statements is either true or false. Write T for true or F for false in the blank spaces provided on the Part C Response Page included in your test.

Example: Shipbuilding is an example of a primary industry.

Response Page F 1.

1. In the future it will be commonplace for workers to change jobs or careers many times.
2. Matching your interests and aptitudes will help you make a career decision.
3. Examples of communication systems include computer teleprocessing and personal contact during meetings.
4. Taxation is the one area where government competes with business.
5. Canada Post is an example of a government-owned monopoly.
6. A person who invents a new type of device can obtain a copyright from the federal government.
7. Every provincial government levies a sales tax as a form of regulation.
8. The Better Business Bureau is a consumer organization which conducts product tests.
9. The *Consumer Packaging and Labelling Act* requires that an ordered list of ingredients be placed on labels of food containers.
10. The certification mark of the Canadian Standards Association must appear on all toys sold in Canada.
11. A business owned by shareholders is called an industry.
12. Competition occurs if two or more businesses try to sell the same type of goods or services to the same customer.

PART C: RESPONSE PAGE

- | | |
|----------|-----------|
| _____ 1. | _____ 7. |
| _____ 2. | _____ 8. |
| _____ 3. | _____ 9. |
| _____ 4. | _____ 10. |
| _____ 5. | _____ 11. |
| _____ 6. | _____ 12. |

Name of Student _____	Student I.D. # _____
Name of School _____	Date _____

Value**PART D: SHORT ANSWER/PROBLEM SOLVING****60**

Part D is worth 60 marks of the total examination mark.

Answer each of the following questions using the space available on the Part D Response Page included in your test.

Read each question carefully and indicate your answer using complete sentences where required.

3

1. Explain how profit encourages the efficient use of resources by businesses.

3

2. List three major advantages of a sole proprietorship business.

3

3. The accounting department of a manufacturing business is responsible for producing a financial plan. What is an accounting financial plan? Explain how it is prepared.

PART D: RESPONSE PAGE

1.

2.

3.

Name of Student

Student I.D. #

Name of School

Date

- 3 4. List three places where you can gather information on careers.
- 3 5. Why is it necessary to have public goods and services provided by government agencies when there is an abundance of private goods and services?
- 4 6. Define the following:
 - a. public sector
 - b. private sector

PART D: RESPONSE PAGE

4.

5.

6.

a.

b.

Name of Student

Student I.D. #

Name of School

Date

- 2 7. What does the Consumers' Association of Canada do to help consumers?
- 8 8. List and explain the four types of advertisements used by companies to attract customers. Give an example of each type.
- 4 9. What is the major difference between Schedule A banks and Schedule B banks?

PART D: RESPONSE PAGE

7.

8.

9.

Name of Student

Student I.D. #

Name of School

Date

9

10. Using the calculation of annual interest formula, find the missing figures in the following chart.

LOAN REPAYMENT SCHEDULE
\$1000/12 MONTHS/12%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$1000.00	Jan. (31)	\$88.85	\$	\$
	Feb. (28) (29 days in a Leap Year)	88.85		80.37
840.97	Mar. (31)	88.85	8.57	
	Apr. (30)	88.85	7.50	81.35
	May (31)	88.85		81.93
597.41	June (30)	88.85	5.89	

1

11. Based on the previous table, what is the total amount of interest paid?

2

12. Explain what is meant by a *blended payment*?

2

13. Name two places where insurance can be purchased.

PART D: RESPONSE PAGE

10.

LOAN REPAYMENT SCHEDULE
\$1000/12 MONTHS/12%

Outstanding Balance	Number of Days	Blended Payment	Interest	Principal
\$1000.00	Jan. (31)	\$88.85	\$	\$
	Feb. (28) (29 days in a Leap Year)	88.85		80.37
840.97	Mar. (31)	88.85	8.57	
	Apr. (30)	88.85	7.50	81.35
	May (31)	88.85		81.93
597.41	June (30)	88.85	5.89	

11. _____

12. _____

13. _____

Name of Student _____

Student I.D. # _____

Name of School _____

Date _____

- 1 14. Under what provincially legislated act are licences issued to insurance companies?
- 4 15. Name four items which might be included as coverage in a dental insurance contract?
- 2 16. What are two advantages of purchasing group insurance?

PART D: RESPONSE PAGE

14.
15.
16.

Name of Student

Student I.D. #

Name of School

Date

- 2 17. Using credit cards can have several disadvantages. List two of these disadvantages.
- 2 18. List one advantage and one disadvantage of taking a short-term loan rather than a long-term loan.
- 2 19. What is *term* insurance?

PART D: RESPONSE PAGE

17. _____

18. _____

19. _____

Total: _____
100

END OF FINAL TEST

Name of Student _____ Student I.D. # _____

Name of School _____ Date _____

This is a course designed in a new distance-learning format, so we are interested in your responses. Your constructive comments will be greatly appreciated so that a future revision may incorporate any necessary improvements.

TEACHER QUESTIONNAIRE FOR BASIC BUSINESS 20

Teacher's Name _____ Area of Expertise _____

School Name _____ Date _____

Design

1. The modules follow a definite systematic design. Did you find it easy to follow?

☐ Yes ☐ No If no, explain.

2. Did your observations reveal that the students found the design easy to follow?

☐ Yes ☐ No If no, explain.

3. Did you find the Learning Facilitator's Manual helpful?

☐ Yes ☐ No If no, explain.

4. Part of the design involves stating the objectives in student terms. Do you feel this helped the students understand what they were going to learn?

☐ Yes ☐ No If no, explain.

5. The questions in the Module Booklet are to help clarify and reinforce the instructional materials. The answers were placed in the Learning Facilitator's Manual. Did this design prove helpful?

☐ Yes ☐ No If no, explain.

6. Did the Follow-Up Activities prove to be helpful?

☐ Yes ☐ No If no, explain.

7. Were students motivated to try these Follow-Up Activities?

☐ Yes ☐ No If no, give details.

8. Suggestions for computer and video activities are included in the course. Were your students able to use these activities?

☐ Yes ☐ No Comment on the lines below.

9. Were the assignments appropriate?

☐ Yes ☐ No If no, give details.

10. Did you fax assignments?

☐ Yes ☐ No

11. If you did fax, did you get satisfactory results from using this procedure?

☐ Yes ☐ No If no, give details.

Instruction

1. Did you find the instruction clear?

☐ Yes ☐ No If no, give details.

2. Did your observations reveal that the students found the instruction interesting?

☐ Yes ☐ No If no, give details.

3. Did you find the instruction adequate?

☐ Yes ☐ No If no, give details.

4. Was the reading level appropriate?

☐ Yes ☐ No If no, give details.

5. Was the workload adequate?

☐ Yes ☐ No If no, give details.

6. Was the content accurate and current?

☐ Yes ☐ No If no, give details.

7. Did the content flow consistently and logically?

☐ Yes ☐ No If no, give details.

8. Was the transition between booklets smooth?

☐ Yes ☐ No If no, give details.

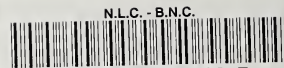
9. Was the transition between print and media smooth?

☐ Yes ☐ No If no, give details.

Additional Comments

When you have completed this questionnaire,
please mail it to the following address:

Design Department
Alberta Distance Learning Centre
Box 4000
Barrhead, Alberta
T0G 2P0



L.R.D.C.
Producer

Basic Business 20

9BB20T10

FIRST EDITION
1991